

## P269 'Prevention of Base Trading Unit BMUs' Account Status Flipping from Consumption to Production' – Report Phase Consultation Responses

**Consultation issued on 20 July 2011**

What stage is this document in the process?

**01** Initial Written Assessment

**02** Definition Procedure

**03** Assessment Procedure

**04** Report Phase

We received responses from the following Parties:

Company	Number of BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
SmartestEnergy	1/0	Supplier/ Consolidator/ Trader
National Grid	1/0	Transmission Company
Good Energy	1/0	Supplier
IBM (UK) Ltd. (for and on behalf of ScottishPower)	7/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator/ Distributor
E.ON UK	6/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator
EDF Energy	10/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator/ Party Agent

## Question 1 - Do you agree with the Panel that P269 should be **approved**?

### Summary

Yes	No
6	0

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	<p>The proposed modification meets BSC Objective (c): Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity by reducing the risk of imbalance for all existing and potential BSC Parties.</p> <p>The proposed modification meets BSC Objective (d): Promoting efficiency in the implementation and administration of the balancing and settlement code arrangements, by obviating the need for Parties to invest in systems to monitor and switch the correct volumes between accounts.</p>
National Grid	Yes	National Grid believes P269 looks to resolve a known issue and there is a benefit to the administration of the BSC in the avoidance of Disputes which meets BSC applicable objective (d).
Good Energy	Yes	This seems to be a prudent response to a changing market with greater embedded generation. When originally set-up it was not envisaged that supplier would buy significant embedded generation, but Good Energy does and welcome this move.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	<p>We believe that the Proposed Modification is better than the current baseline for the following reasons:</p> <p>Objective a)      Neutral</p> <p>Objective b)      Neutral</p> <p>Objective c)      Positive. The change will ensure that <b>the Parties operating in a GSP where a “flipping” event occurs are protected from the effect of that “flipping”, and are not unexpectedly exposed to</b> imbalance. Parties are generally unable to accurately predict when a tipping point will occur so that they could protect themselves. The change is a pragmatic, short term solution to a current issue. The stability this change affords is a benefit to competition.</p> <p>Objective d)      Positive. There is a benefit to the</p>

Respondent	Response	Rationale
		administration of the BSC in the avoidance of disputes and issue resolution activities to deal with any <b>"flipping" event.</b>
E.ON UK	Yes	<p>While a 'flip' appears some way off, we support putting P269 in place now; our views have not changed from our Assessment Consultation response. We agree with the Panel that this proposal is a practical solution to prevent a potentially serious and unmanageable risk to Parties. It would better facilitate Applicable Objective (c) by removing this risk of negative impact on competition that would result <b>from a "flipping"</b> situation. There are also benefits under (d) as removing the risk of this situation occurring would avoid the need for Parties to monitor in preparation and switch volumes in such an event. As we cannot foresee whether a different solution might be appropriate in the longer-term when other market arrangements may have changed, if any BTUs become consistently net exporters in future this issue can be revisited. However implementing P269 now should remove both the risk to Lead Parties of notifying contracted volumes against the wrong account, and the need for a potentially retrospective future Code change.</p>
EDF Energy	Yes	<p>With increasing volumes of exemptable embedded generation, the possibility increases of BM Units in the Base Trading Unit in a GSP Group at some point unexpectedly "flipping" from Consumption to Production and/or back again as a result of changes in BM Unit's GC and DC. The North of Scotland GSP Group appears closest to this happening, although considerable margin still exists.</p> <p>The proposal better meets BSC objective (c) relating to competition, by avoiding the arbitrary redistribution of money that could otherwise arise. The consequences of unexpected "flipping" would be:</p> <ul style="list-style-type: none"> <li>• <b>"Artificial" gross imbalance on Production and Consumption</b> accounts, without any additional net imbalance taken across both accounts, for Suppliers and Exempt Export BM Units in the Base Trading in the GSP Group, until physical volume and contracts can be re-balanced in their accounts</li> <li>• Corresponding Cashflow Reallocation for all parties</li> </ul> <p>The proposal better meets BSC objective (d) by avoiding the need for costly developments to party and central systems and processes. Even if party</p>

Respondent	Response	Rationale
		systems and bilateral contractual arrangements were adapted at considerable cost to facilitate rapid switching of contract notifications from C to P and back to avoid imbalance in the event of “flipping”, changes to central systems and processes would be required to provide advance notice of such flipping. In addition, it is possible that sudden re-notification of a large number of bilateral contracts would detrimentally affect Energy Contract Volume Agent performance.

## Question 2 - Do you agree with the Panel’s recommended Implementation Date?

### Summary

Yes	No
6	0

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	-
National Grid	Yes	-
Good Energy	Yes	Sooner the better.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
E.ON UK	Yes	It is desirable to implement P269 promptly before the Summer 2012 BSC Season and we note that this should incur no further costs. It would also be most efficient to implement P269 in parallel with P268 if both are approved.
EDF Energy	Yes	Although an earlier date might have been expected for what appears to be a relatively simple change, we accept the 23 February 2012 or 5 April 2012 dates proposed in the modification report. Hopefully the circumstances contemplated by the proposal will not occur before that time. Legal implementation from the approval date, with systems implementation at the later dates proposed would reduce the risk and administrative effort if the circumstances were to

Respondent	Response	Rationale
		occur between approval and systems implementation.

Question 3 - Do you agree with the Panel that the redlined changes to the Code, BSCP15, BSCP31 and CRA Service Description deliver the intention of P269?

### Summary

Yes	No	Neutral/Other
5	0	1

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	-
National Grid	Yes	-
Good Energy	Yes	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
E.ON UK	Yes	The changes to both the Code and the CSDs appear appropriate.
EDF Energy	Yes/No	<p>The proposed legal text changes appear to deliver the intention of P269.</p> <p>During assessment, we commented that the original purpose of section K3.5.6, which it is proposed to delete, was to ensure that the overall settlement process would continue to function even if data required from a particular party had not been provided, and for that reason it should be retained. We accept that with P269 the status of Supplier BM Units in the Base Trading Unit would no longer depend on GC/DC submission, and with P268 the status of Supplier BM Units that are Exempt Export BM Units must be declared by their registrants in order to be registered, so the default status specified in K3.5.6 would no longer be required for such BM Units.</p> <p>While recognizing that minimum change is generally a “safe” approach, we note that successive changes arising from previous modifications, culminating in</p>

Respondent	Response	Rationale
		this proposal, render the legal text at K3.5 more convoluted than it needs to be. A party with a particular type of BM Unit must read the exceptions very carefully to identify its situation.

## Question 4 - Do you agree with the Panel that P269 meets the Self-Governance Criteria?

### Summary

Yes	No
4	2

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	<p>This modification will not have a material impact on:</p> <ul style="list-style-type: none"> <li>Existing/future customers;</li> <li>Competition;</li> <li>Operation of the Transmission System;</li> <li>Matters relating to security of supply; and</li> <li>BSC governance or Modification procedures-</li> </ul> <p>In addition it does not discriminate against any Party.</p> <p>Indeed, this modification is designed to prevent impact on Parties not cause impact.</p> <p>It occurs to us that those Parties who are claiming that this issue has an impact on the market arrangements in the longer term are doing so merely because they are putting down a marker that they believe they should not be trading generation and demand out of two accounts. This is to forget that the two-account arrangements exist so as not to give undue advantage to vertically integrated players and that embedded generation is treated as negative demand. It should also be pointed out that this modification does not prevent flipping of the embedded benefit merely the account out of which Parties trade; in other words, where a GSP is a net exporter, the embedded benefit reverses to favour demand.</p>
National Grid	Yes	-
Good Energy	Yes	-

Respondent	Response	Rationale
IBM (UK) Ltd. (for and on behalf of ScottishPower)	No	While the change this Modification seeks to introduce is a small one in terms of physical change (i.e. it will make a minor change to Code), it opens up a larger and more complex issue around how and why BMUs are classed, and where it is appropriate to classify a BMU in opposition to the way it actually performs. The principle from NETA go-live has, for the most part, been to treat Parties appropriately. By hard coding that these BMUs are always Consumption when in fact they may be Production goes counter to that principle. This departure is a larger issue which removes it from the realm of self-governance.
E.ON UK	Yes	P269 is a straightforward change that would be beneficial to existing and potential Parties and it would be most efficient for all for it to be progressed via Self-Governance. It meets the self-governance criteria by addressing a potential problem that has been foreseen for several years. It would not have, rather, would prevent, any material impact on competition that could occur if this modification is not implemented.
EDF Energy	No	<p>In the 20th July 2011 letter from the BSC Panel <b>Secretary to Ofgem, the Panel's reasons for deciding</b> the modification meets the self-governance criteria are given as:</p> <ol style="list-style-type: none"> <li>1. P269 addresses an issue which is systematic in the BSC arrangements and has been known about for several years.</li> <li>2. P269 is straightforward and beneficial.</li> <li>3. P269 does not discriminate against any Party.</li> <li>4. P269 will not have a material impact on existing/future consumers, competition, operation of the Transmission System, matters relating to the security of supply, or BSC governance or Modification Procedures.</li> <li>5. P269 will prevent a significant negative impact on competition (imbalance). Its implementation will neither be detrimental to competition nor significantly affect competition, as it preserves the status quo for the majority of Base Trading Units.</li> <li>6. The benefits and impacts of P269 relate more to efficiency in the BSC arrangements than to competition.</li> </ol> <p><b>We agree with the Panel's reasons 1,2,3. In relation</b> to reason 5, it seems contradictory to say that the</p>

Respondent	Response	Rationale
		<p>proposal will not significantly affect competition yet it will prevent a significant negative effect on competition. In relation to reason 6, while P269 would avoid the considerable administrative effort that would inevitably be required to resolve the situation if it occurred without prior change to the BSC, we consider the main benefit to be avoidance of the identified consequences, the defect, for such a situation in the first place.</p> <p>The main reason we disagree with the Panel overall relates to reason 4, and Self-Governance Criteria a(ii) and (b), and in the long run (a)(i). If the circumstances contemplated were to occur, P269 would have a significant material and varying impact on individual suppliers and exempt export BM Unit registrants in affected Base Trading Units, and shared cashflow reallocation for all other parties, <b>compared with the current baseline</b>. For this reason, although we consider its impacts to be beneficial for competition, it does not appear to satisfy (a)(ii) and (b) and in the long run (a)(i) of the self-governance criteria.</p> <p><i>(Self-Governance Criteria referred to in assessment:</i>  <i>"A Modification Proposal that, if implemented:</i>  <i>a) is unlikely to have a material effect on:</i>  <i>i) existing or future electricity consumers; and</i>  <i>ii) competition in the generation, distribution or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and</i>  <i>iii) the operation of the national electricity transmission system; and</i>  <i>iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and</i>  <i>v) the Code's governance procedures or modification procedures, and</i>  <i>b) is unlikely to discriminate between different classes of Parties."</i></p> <p>We also note that the proposal partially undermines the original rationale under NETA for distinguishing P and C; to seek equivalent but separate settlement of activities related to generation and those related to supply/consumption. However, this distinction has already been blurred through successive modifications</p>



Respondent	Response	Rationale
		related to exemptable generation.

## Question 5 - Do you have any further comments on P269?

### Summary

Yes	No
0	6

### Responses

Respondent	Response	Rationale
SmartestEnergy	No	-
National Grid	No	-
Good Energy	No	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	No	-
E.ON UK	No	-
EDF Energy	No	-