

P269 'Prevention of Base Trading Unit BMUs' Account Status Flipping from Consumption to Production' Assessment Consultation Responses

Consultation issued on 23 May 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	No BSC Parties/non- parties Represented	Role of Parties/non- Parties represented
SmartestEnergy	1/0	Supplier/ trader/ consolidator
RWE Supply & Trading GmbH	10/0	Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent
IBM (UK) Ltd. (for and on behalf of ScottishPower)	7/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptible Generator/ Distributor
Centrica	11/0	
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 believe that P269 would better facilitate the
Applicable BSC Objectives when compared with the current Code
provisions?

Summary

Yes	No	Neutral/Other
6	0	0

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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>
RWE Supply & Trading GmbH	Yes	<p>P269 represents a pragmatic solution to the problems associated with the “flipping” of trading units from Consumption to Production. Given the implications of the current baseline for inadvertent imbalances, P269 better meets Objective C.</p> <p>However we believe that an enduring solution is required in the event that base trading units are exporting energy and would normally be allocated to production accounts. This should address any discrimination issues associated with the P269 solution i.e. that a certain class of exporting trading units are being treated differently from other exporting trading units without objective justification.</p>
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 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 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 administration of the BSC in the avoidance of disputes and issue resolution activities to deal with any “flipping” event.</p>

Respondent	Response	Rationale
Centrica	Yes	It would better facilitate objectives C & D by reducing the risk parties face which they cannot easily manage. By applying the remedy specifically to Base Trading Units, this targets the remedy accurately, ensuring minimum distortion and promoting efficiency in the balancing & settlement arrangements.
E.ON UK	Yes	<p>We agree with the unanimous view of the Workgroup that P269 would provide a practical solution to prevent a potential problem and would better facilitate Applicable Objective (c) by removing the risk of the negative impact on competition that would result from a “flipping” situation. We also see 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 well as the further Code work that would be required to address such a situation (potentially retrospectively) should it be allowed to arise.</p> <p>As with the P268 situation in relation to Exempt Export BMU that have not elected a status, it is undesirable for any unit to only discover that their P/C status has flipped after the event from the CRA-I014 data flow, finding themselves in imbalance as a result. It seems that the situation P269 seeks to prevent is some way off, however the impacts on any Party affected if this should occur could be seriously detrimental in terms of imbalance charges and credit implications. Consequently it is desirable to put a solution in place as soon as practical. It would seem short-sighted not to put the P269 proposal in place on the basis that it might not be the optimum long-term solution - no longer-term solutions are on the table now and it is not possible to foresee what might be appropriate in future when other market arrangements may have changed. Assessing P269 against the Applicable Objectives it is the only practical option on the table now and we support its implementation to help facilitate (c) and (d). If any BTUs become consistently net exporters in future this issue can be revisited considering any other changes that may have taken place by then. This situation seems unlikely to arise in the next few years and P269 would remove the “flipping” risk in the meantime.</p>

Respondent	Response	Rationale
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"> • "Artificial" gross imbalance on Production and Consumption accounts (but no net imbalance taken across both) for Suppliers in the GSP Group until physical volume and contracts can be re-balanced in their other accounts • Corresponding Cashflow Reallocation for all parties <p>The proposal better meets BSC objective (d) by avoiding the need for costly developments to party and central systems and processes:</p> <p>Even if party 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.</p>

Question 2: Do you believe that P269 meets the criteria for progression as a Self-Governance Modification Proposal?

Summary

Yes	No	Neutral/Other
2	4	0

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Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	<p>This modification will not have a material impact on:</p> <ul style="list-style-type: none"> Existing/future customers; Competition; Operation of the Transmission System; Matters relating to security of supply; and BSC governance or Modification procedures. <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>
RWE Supply & Trading GmbH	No	<p>We do not believe that the P269 proposal meets the self governance criteria since the issues raised could have a material impact on the settlement arrangements. Consequently P269 should be determined by Ofgem.</p>
IBM (UK) Ltd. (for and on behalf of ScottishPower)	No	<p>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.</p>
Centrica	No	<p>We believe that P269 does not meet the requirements for self governance as it makes a significant change to the way in which P/C status is determined, diverging from the original intent of dynamic determination. On this basis it should be fully considered by the Panel and the Authority rather than following a self governance route</p>
E.ON UK	Yes	<p>As the problem does not seem to be imminent even in North Scotland GSP Group, there is time for it to go through the Standard modification procedure and be considered by Ofgem, and clearly Ofgem can veto the self-governance route if they think fit. However it seems to us to meet the self-governance criteria in the way that it addresses a potential problem that has been foreseen for a long time. The P269 solution is straightforward and would be beneficial to existing and any new Parties. It would not have, rather, would prevent, any material impact on competition that could occur if this modification is not implemented.</p>

Respondent	Response	Rationale
EDF Energy	No	The P/C status of BM Units in a Base Trading Unit has a significant material impact on settlement amounts, and that impact could be different for different parties according to their particular circumstances. For this reason, although we consider the proposed changes pragmatic and unlikely to be opposed, they do not appear to meet the criteria set out for Self-Governance.

Question 3: Do you agree that, if both P268 and P269 are approved, there are benefits in implementing them together at the same time?

Summary

Yes	No	Neutral/Other
5	0	1

Responses

Respondent	Response	Rationale
SmartestEnergy	-	-
RWE Supply & Trading GmbH	Yes	It seems sensible to minimise costs by implementing both P268 and P269 at the same time.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
Centrica	Yes	Please see response to P268
E.ON UK	Yes	Implementation simultaneously would be most efficient.
EDF Energy	Yes	<p>Although P268 should be capable of implementation relatively quickly, there is no evidence that delay would have material impact on any parties in the intervening period. This being the case, implementation with P269 would provide cost savings assisting BSC Objective (d).</p> <p>The benefit would be reduced administrative cost in updating documents and processes, both central costs and party costs. The modifications both relate to the allocation of BM Unit P/C status and it seems sensible to implement them together, even though there is no firm requirement to do so.</p>

Question 4: Do you have any further views or comments that you would like the Group to consider (including any comments on the solution, the proposed Implementation Date or the draft Code legal text)?

Summary

Yes	No	Neutral/Other
2	4	0

Responses

Respondent	Response	Rationale
SmartestEnergy	No	-
RWE Supply & Trading GmbH	No	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	No	-
Centrica	Yes	We understand from discussion that the intent of the modification may be that once attributed, the P/C status of the Base Trading Unit cannot be changed even by notification. We agree this may cause an issue in future and would appreciate clarification that this is indeed the case and consideration as to whether this restriction is necessary.
E.ON UK	No	-
EDF Energy	Yes	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. The default was not intended to be an ongoing default position for the party, but for the subsequent processes required to achieve settlement for all parties. Failure to provide data would be a non-compliance which should be escalated and could ultimately lead to default under BSC Section H. This clause should be retained for this purpose.