

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

Stage 01: Initial Written Assessment

P277 'Allow Interconnector BM Units to choose their P/C Status'

P277 proposes that Interconnector Users should be allocated a single Interconnector BM Unit for each Interconnector, rather than the existing pair of Production and Consumption Interconnector BM Units.

The Lead Party for this single Interconnector BM Unit would be able to elect whether the BM Unit's P/C Status is Production or Consumption.



ELEXON recommends:

A 5-month Assessment Procedure by a Workgroup (including a proposed 15WD consultation period of 13/01/12 – 03/02/12)



High Impact:

Interconnector Users and Interconnector Administrators



Medium Impact:

Central Registration Agent (CRA)



Low Impact:

ELEXON

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About This Document:

This document is an Initial Written Assessment (IWA), which ELEXON will present to the BSC Panel on 13 October 2011. The Panel will consider the recommendations and will agree how to progress P277.

You can also find further information in:

- Attachment A – P277 Modification Proposal.



Any questions?

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How are Interconnector BM Units configured?

When a Party, in the role of an Interconnector User, signs up to trade over an Interconnector, they are assigned two BM Units by the Central Registration Agent (CRA) in accordance with Sections K5.5 and K3.5 of the Code.

The CRA assigns these BM Units in fixed pairs per Interconnector as follows:

- A Production BM Unit for energy entering Britain over the Interconnector; and
- A Consumption BM Unit for energy leaving Britain over the Interconnector.

The Production/Consumption (P/C) Status of these BM Units are fixed as Production and Consumption respectively, and cannot be changed.

What is P/C Status?

Every BM Unit has a P/C Status. This P/C Status is used to determine which of the Lead Party's Energy Accounts the BM Unit's net Metered Volume is allocated to:

- A **Production** Status will result in Metered Volumes being allocated to the Production Energy Account; and
- A **Consumption** Status will result in Metered Volumes being allocated to the Consumption Energy Account.

If a Party's net Metered Volumes and Energy Contract Volume Notifications (ECVNs) are not aligned to the same Account, the Party will be exposed to Imbalance Charges on both Accounts.

In the case of Interconnector BM Units, this means that energy from a Production BM Unit (i.e. energy entering Britain) is assigned to the Lead Party's Production Energy Account, while energy from a Consumption BM Unit (i.e. energy leaving Britain) is assigned to their Consumption Energy Account. As an Interconnector BM Unit's P/C Status is fixed, this cannot be changed.

The issue – Trading across multiple Interconnectors

If a Party imports energy into Britain via one Interconnector with the intent of exporting the same energy out again via another Interconnector, the current rules mean they face a situation where they may end up in imbalance. This is because each of the two trades would end up in separate Energy Accounts. Without additional contracts, the current arrangements would leave both Energy Accounts in imbalance, leaving the Party open to being charged the System Buy Price/System Sell Price (SBP/SSP) spread over the whole amount.

Consider, for example, a Party buying energy in France and transporting it to the Netherlands via Britain. The energy entering Britain over the French Interconnector would be allocated to the Party's Production Account, while the energy leaving Britain over the BritNed Interconnector would be assigned to their Consumption Account.

In this scenario, the Party would be Long (production exceeding consumption) in their Production Account and would be paid SSP for this amount. They would also be Short

What is the issue?

Energy entering Britain over an Interconnector is assigned to a different Energy Account to energy leaving Britain. This can cause a Party to be in imbalance in both their Accounts, if they are importing energy over one Interconnector and then exporting the same energy over another.

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(consumption exceeding production) by an equal amount in their Consumption Account, and would be charged SBP on that amount. As SBP is always greater than or equal to SSP, the Party would be charged more than they were paid, leaving them with a net imbalance charge. However, as the two energy volumes are actually equal and opposite, they would have netted to zero if they were allowed to be in the same Energy Account, meaning the Party would have been perfectly balanced.

This issue can be resolved by setting up an ECVN between the two Accounts¹, but this is an additional administrative burden and potentially prone to human error by the Party.

2 Solution

Proposed solution

P277 proposes to allocate Interconnector Users a single Interconnector BM Unit for each Interconnector they register with, rather than the existing pair of Production and Consumption BM Units. The Lead Party of this BM Unit would be able to choose the BM Unit's P/C Status by electing a P/C Flag of either Production or Consumption.² This P/C Status would not change (regardless of the actual flow direction) unless the Lead Party elects to change its P/C Flag from Production to Consumption, or vice versa.

This means that both export and import volumes would be associated with that single BM Unit, and the Lead Party (by choosing its P/C Flag) would elect which of its Energy Accounts the resulting net Metered Volume is allocated to. In the situation described in Section 1, where Party is importing energy over one Interconnector and exporting the same energy out over another, this would result in a net volume of zero in the Party's elected Energy Account – removing any imbalance issue.

P277 suggests that this arrangement should be mandatory for all existing and future Interconnector Users from the Implementation Date of this Modification Proposal. However, the Proposer notes that any Workgroup may wish to consider whether these rules should instead be voluntary for existing and/or future Interconnector BM Units.

Applicable BSC Objectives

The Proposer believes that P277 will better facilitate the achievement of:

- **Applicable BSC Objective (c)**, as it would reduce the risk of imbalance exposure for Parties trading over Interconnectors. Being able to choose the P/C Status would also make nominating easier and more transparent to market participants; and
- **Applicable BSC Objective (d)**, as it would reduce the need for Parties trading over Interconnectors to submit ECVNs in order to balance each of their Energy Accounts.

¹ A Metered Volume Reallocation Notification (MVRN) cannot be used because BSC Section P3 only allows MVRNs from one Production Account to another or from one Consumption Account to another, and not from Production to Consumption or vice versa.

² The P/C Flag is the mechanism which CRA systems use to fix a BM Unit's P/C Status as Production or Consumption.



What is the solution?

Parties would only be assigned one BM Unit per Interconnector, and they would be required to elect its P/C Flag.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

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3 Things to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal. If P277 goes into the Assessment Procedure, then we recommend that the areas below form the basis of the Workgroup's Terms of Reference.

What changes are required to support the proposed solution?

P277 is likely to impact the BSC, Code Subsidiary Documents and central CRA systems. It will also impact Interconnector Users and Interconnector Administrators. The specific changes required will need to be identified through an impact assessment, along with any associated implementation costs and lead times.

What mitigating actions can Interconnector Users currently take?

Under the current arrangements, Interconnector Users can set up an ECVN between their two Energy Accounts, which would balance each of them. However, this is an extra administrative step, and one that could be subject to human error by the Party (for example, a small error over a minus sign could result in their imbalance being doubled).

A Party cannot use a Metered Volume Reallocation Notification (MVRN) in this scenario as BSC Section P3 only allows MVRNs between 'like' Accounts, i.e. from one Production Account to another or from one Consumption Account to another. It does not allow MVRNs between different types of Account, i.e. from Production to Consumption or vice versa.

How should Interconnector volumes be treated?

The original intention of the BSC in setting up separate Production and Consumption Energy Accounts was so that Parties with separate licensable generation and supply businesses would have these entities treated separately. However, this also has the effect of treating Interconnectors as separate entities based on which way energy is traded across them, with energy entering Britain being treated separately to energy leaving Britain.

This set-up with Interconnector BM Units was originally intended to keep Interconnectors in line with the rest of the GB arrangements, with energy being allocated to Energy Accounts in line with whether it was entering or leaving the Total System. With recent changes in European regulations, and the European Commission's objective of a single European electricity market, it may be that Interconnector arrangements should instead be considered in a broader European context (for example, as it becomes more common for Parties to buy energy in one country and sell it in another).

Should any new arrangements be mandatory or voluntary?

P277 proposes that the new single Interconnector BM Unit arrangement should be mandatory for existing and future Interconnector Users from the P277 Implementation Date onwards.

Consideration should be given to whether this is the most appropriate approach, or whether the new arrangements should be voluntary for existing and/or future Interconnector BM Units. The practicalities of any voluntary arrangements would need to be established. It would be open to any Workgroup to develop an Alternative Modification in this area.

What are the benefits to the Applicable BSC Objectives?

The primary benefits cited by the Proposer are avoiding imbalance exposure and unnecessary ECVNs, thereby promoting competition and efficiency under Applicable BSC Objectives (c) and (d).

There is not yet a specific Applicable BSC Objective concerning alignment with wider European objectives. There may therefore be additional benefits of P277 in this area which fall outside the Applicable BSC Objectives but could be considered by Ofgem as part of its wider statutory duties.

4 Proposed Progression

Next steps

ELEXON recommends that a Workgroup carries out further assessment of P277.

The proposed solution is well-defined; therefore we are not recommending a Definition Procedure. However, we believe the proposal would benefit from further assessment by a Workgroup in order to consider the areas outlined in Section 3.

The Proposer is not requesting that P277 is progressed as a Self-Governance Modification Proposal. We agree that P277 does not meet the criteria for Self-Governance because it would be a material change to the existing arrangements, impacting all Interconnector Users and Interconnector Administrators. We believe it raises questions of principle which are material to competition, and which Ofgem should therefore consider. Some of the potential principles and benefits associated with P277 (such as consistency with European developments) may also fall outside the scope of the Applicable BSC Objectives and require consideration by Ofgem as part of its wider statutory duties.

We agree with the Proposer that P277 has no interaction with any ongoing Significant Code Reviews (SCRs).

Terms of Reference

We recommend that membership of the P277 Workgroup is drawn from members of the Settlement Standing Modification Group (SSMG), supplemented with any other relevant experts and interested parties.



What is the proposed progression?

P277 should be progressed to the Assessment Procedure.

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We recommend that the Workgroup considers the following areas:

P277 Terms of Reference	
1	What changes to BSC documentation, systems and processes are required to support P277?
2	What mitigating actions can Interconnector Users currently take?
3	How should Interconnector volumes be treated?
4	Should any new arrangements be mandatory or voluntary?
5	What are the benefits to the Applicable BSC Objectives? Are there any wider benefits/principles that Ofgem should consider?

Interaction with P278

We recommend that P277 is progressed in parallel with separate Modification Proposal P278 'Treatment of Transmission Losses for Interconnector Users'.

Both Modifications will draw their Workgroup members from the SSMG, so holding Workgroup meetings on the same day or consecutive days will be more efficient and will help to reduce costs/workload.

In addition, both Modifications relate to how the BSC's rules for Interconnectors interact with the principle of a single European energy market. Although we do not anticipate any direct interaction between the two proposals, using the same Workgroup for both will allow the group to identify and consider any common principles.

Timetable

We recommend that P277 undergoes a 5-month Assessment Procedure.

We believe that the Workgroup will need to undertake the activities shown in the table below. These include undertaking a 15 Working Day (15WD) industry impact assessment followed by a 15WD industry consultation.

In isolation of any other changes, we believe that the Group could complete these activities in 4 months. However, given the number of other Modification Proposals in progress, we believe that a 5-month assessment for P277 is more appropriate to help the industry manage its workload and to avoid issuing a consultation over the Christmas period.

The BSC allows the Panel to set an Assessment Procedure timetable which is longer than 3 months where the Panel believes this is justified by "the particular circumstances of the Modification Proposal (taking due account of its complexity, importance and urgency)" (F2.2.9), and provided the Authority does not issue a contrary direction.

Proposed progression timetable for P277	
Assessment activity	Date
Present IWA to Panel	Thursday 13 October 2011
Workgroup Meeting 1	Wednesday 26 October 2011
Workgroup Meeting 2 (if required – joint meeting with P278)	Wednesday 2 November 2011
Issue P277 for a 15WD Impact Assessment	Monday 14 November 2011
Workgroup Meeting 3 (joint meeting with P278)	Thursday 8 December 2011
Issue P277 for a 15WD Industry Consultation	Friday 13 January 2012
Workgroup Meeting 4 (joint meeting with P278)	Tuesday 14 February 2012
Present Assessment Report to Panel	Thursday 8 March 2012
Issue P277 for Report Phase Consultation (15WD)	Friday 9 March 2012
Present Modification Report to Panel	Thursday 12 April 2012

Estimated progression costs

The following tables contain our estimates of the costs involved in progressing P277 through the Modification Procedures.

Estimated progression costs based on proposed 5-month Assessment Procedure timetable	
Meeting costs (including Workgroup member expenses)	£1,500 (based on four meetings, three of which to be held on the same days as P278 meetings)
Non-ELEXON legal and expert costs	£0
ELEXON resource	50 man days, equating to approx. £12k

Estimate of total industry assessment costs					
Workgroup support	Est #mtgs	Est #att	Est effort	Est rate	Sub-total
	4	6	1.5	£605	£21,780
Consultation response support	Est #con	Est #resp	Est effort	Est rate	Sub-total
	2	6	2.5	£605	£18,150
Total costs					£39,930



Industry Assessment Costs

Industry Workgroup support and consultation response costs represent an approximation of industry time and effort in attending Workgroup meetings and responding to consultations.

The calculation is based upon an estimate of how many attendees we expect to attend each meeting and how many responses we expect to receive to each consultation.

It assumes that each attendee will require 1.5 man days of effort per meeting and each response will take 2.5 man days of effort, multiplied by a standard rate of £605 per man day.

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5 Likely Impacts

Impact on BSC Systems and process

BSC System/Process	Potential impact
CRA	Changes will be required to how the CRA assigns Interconnector BM Units and their P/C Flags.

Impact on BSC Parties and Party Agents

If the P277 rules are made mandatory, all future Interconnector Users will be required to have a single Interconnector BM Unit per Interconnector and to elect that BM Unit's P/C Flag/Status. Existing Interconnector Users will need to deregister one of their existing pair of BM Units, and elect the P/C Flag/Status of the remaining Interconnector BM Unit. Interconnector Administrators, will also need to assign flows to the correct BM Units.

Impact on Transmission Company

National Grid may need to re-register Interconnector BM Units within their systems.

Impact on ELEXON

Area of ELEXON	Potential impact
BM Unit Registrations	Changes to ELEXON's working practices may be needed.
Release Management	ELEXON will manage the implementation project.

Impact on Code

Code Section	Potential impact
Section K	Changes will be required to implement the solution.
Section R	Changes may be required to implement the solution.
Section T	Changes may be required to implement the solution.

Impact on Code Subsidiary Documents

CSD	Potential impact
BSCP15	Changes will be required to implement the solution.
CRA Service Description	Changes will be required to implement the solution.

Impact on other Configurable Items

Configurable Item	Potential impact
CRA System Docs	The impacts will be confirmed during Assessment Procedure.

Other Impacts

Item impacted	Potential impact
ELEXON Information Sheets	Changes will be required to the BM Units and P/C Status Information Sheets to reflect the new rules.

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6 Recommendations



On the basis of this IWA, ELEXON invites the Panel to:

- **DETERMINE** that Modification Proposal P277 progresses to the Assessment Procedure;
- **AGREE** the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel at its meeting on 8 March 2012;
- **DETERMINE** that the P277 Workgroup should be formed from members of the Settlement Standing Modification Group (SSMG), supplemented with any other relevant experts and interested parties;
- **AGREE** the Workgroup's Terms of Reference;
- **AGREE** that P277 has no interaction with any ongoing SCRs; and
- **AGREE** that P277 does not meet the Self-Governance Criteria.

Assessment Procedure

ELEXON recommends a 5-month Assessment Procedure for P277.

7 Further Information

You can find more information in:

Attachment A – P277 Modification Proposal.

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