



Stage 04: Draft Modification Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

▶ 04 Report Phase

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

P277 proposes that Interconnector Users and Interconnector Error Administrators (IEAs) should have one Interconnector BM Unit per relevant Interconnector. The Lead Party would be required to elect whether this Interconnector BM Unit's P/C Status is Production or Consumption. These rules would be mandatory for all existing and future Interconnector Users and IEAs from the P277 Implementation Date.

This would replace the existing requirement to have two Interconnector BM Units per relevant Interconnector (one BM Unit with a fixed P/C Status of Production and one with a fixed P/C Status of Consumption).

This Report Phase Consultation for P277 closes:

5pm on Friday 30 March 2012

The Panel may not be able to consider late responses.



The BSC Panel:

- Initially recommends **rejection** of P277



High Impact:

- Interconnector Users
- Interconnector Administrators
- Interconnector Error Administrators



Medium Impact:

- Central Registration Agent
- Settlement Administration Agent
- Transmission Company



Low Impact:

- ELEXON

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Draft Modification Report

9 March 2012

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Any questions?

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About this Document

This is the P277 Draft Modification Report, which ELEXON is issuing for industry consultation on the BSC Panel's behalf. It contains the Panel's provisional recommendations on P277. The Panel will consider all consultation responses at its next meeting on 12 April 2012, when it will agree a final recommendation to Ofgem on whether or not the change should be made.

There are 9 parts to this document:

- This is the main document. The majority of this document is identical to the Workgroup's Assessment Report and provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. However, it also includes the initial recommendations which the Panel has made after considering the Assessment Report.
- Attachment A contains more information on the Workgroup's analysis and assessment, and is unchanged from the version attached to the Workgroup's Assessment Report. It includes an overview of Interconnectors and the related Parties, as well as worked examples of the current and proposed arrangements. It also contains details of the Workgroup's membership and full Terms of Reference.
- Attachment B contains the full responses received to the Workgroup's Assessment Procedure Consultation.
- Attachment C contains the draft redlined changes to the BSC for P277.
- Attachments D-G contain the draft redlined changes to the affected Code Subsidiary Documents for P277.
- Attachment H contains the specific questions on which the Panel seeks your views. Please use this form to provide your responses to these questions, and to record any further views/comments you wish the Panel to consider.

The Panel has progressed P277 in parallel with [P278 'Treatment of Transmission Losses for Interconnector BM Units'](#). P278 will also impact Interconnector Users, although the two solutions are independent of one another. For more information about P278, please refer to the separate P278 Draft Modification Report.

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Why Change?

Each Interconnector User is currently allocated a pair of Interconnector BM Units per Interconnector that they trade over. Energy that the Interconnector User brings into GB is considered to be an Export onto the GB Transmission System and is allocated to their Production Energy Account via their Production BM Unit. Energy that they take out of GB is considered to be an Import from the GB Transmission System and is allocated to their Consumption Account via their Consumption BM Unit.

This can lead to imbalance in both of a Party's Energy Accounts, even if the Party's Export and Import flows across Interconnectors are actually balanced (i.e. are equal and opposite). A Party can set up an Energy Contract Volume Notification (ECVN) between its two Energy Accounts to avoid this imbalance, but this is an additional administrative burden and can be subject to human error.

Solution

Each Interconnector User would only be allocated one Interconnector BM Unit per Interconnector that they trade over (so if they trade over all three of the existing GB Interconnectors, they will have three Interconnector BM Units – one for each Interconnector).¹ They would be required to choose the P/C Status of each BM Unit (i.e. whether it is a Production or Consumption BM Unit). This would allow them to avoid imbalance by netting all their Export and Import flows over Interconnectors in one Energy Account.

These rules would also apply to Interconnector Error Administrators, and would be mandatory for all existing and future Interconnector Users and IEAs from the P277 Implementation Date.

Impacts & Costs

P277 impacts the BSC, BSC Procedures (BSCPs) 15, 31 & 65, the Central Registration Agent (CRA) Service Description, and other CRA and Settlement Administration Agent (SAA) documents. It impacts all Interconnector Users, Interconnector Administrators and Interconnector Error Administrators. It also impacts the Transmission Company, the CRA and SAA, and ELEXON.

The central implementation cost of P277 is £67k, comprising £55k in CRA and SAA costs and £12k in ELEXON effort. Party costs range from up to £35k for Interconnector Users to up to £100k for IAs/IEAs.

Implementation

The proposed Implementation Dates for P277 are 28 February 2013 (February 2013 BSC Systems Release) or 27 June 2013 (June 2013 BSC Systems Release), depending on when Ofgem's decision is received.

¹ The GB-France (IFA), GB-Northern Ireland (Moyle) and GB-Netherlands (BritNed) Interconnectors.

The Case for Change

The Proposer believes that P277 would better facilitate Applicable BSC Objectives (c), (d) and (e). The majority of Workgroup members and Panel Members do not believe that P277 better facilitates any of the Applicable BSC Objectives. The Panel therefore provisionally agrees with the Workgroup's recommendation that P277 should be rejected.



What is the issue?

Energy entering Great Britain over an Interconnector is assigned to a different Energy Account to energy leaving Great Britain. This can cause an Interconnector User to be in imbalance in both their Accounts, unless they notify an additional contract to balance their position.

This section describes the issue identified by the Proposer. For an explanation of how Interconnectors work, including the roles of the Interconnector Administrator, Interconnector Error Administrator and Interconnector Users, please see Attachment A.

How are Interconnector BM Units currently configured?

When a BSC 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) for that Interconnector in accordance with Sections K5.5 and K3.5 of the BSC.

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

- A Production BM Unit for energy entering Great Britain over the Interconnector (a positive Export flow); and
- A Consumption BM Unit for energy leaving Great Britain over the Interconnector (a negative Import flow).

The Production/Consumption (P/C) Status of these BM Units is fixed and cannot be changed.

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

What is wrong with the current rules?

If a Party imports energy into Great 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 Northern Ireland via Great Britain. The energy entering Britain over the GB-France (IFA) Interconnector would be allocated to the Party's Production Account, while the energy leaving Britain over the GB-Northern Ireland (Moyle) Interconnector would be assigned to their Consumption Account.

In this scenario, the Party would be 'long' (Exports exceeding Imports) in their Production Account and would be paid SSP for this amount. They would also be 'short' (Imports exceeding Exports) by an equal amount in their Consumption Account (not accounting for transmission losses), 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 (not accounting for transmission losses) 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 Accounts,² but this is an additional administrative burden and potentially prone to human error by the Party (for example, a small error over a minus sign could result in their imbalance being doubled).

This issue is not limited just to Parties who wish to transport energy through Great Britain. For example, it would also affect the following:

- A GB generator who wishes to sell energy to another country; or
- A financial trader who wishes to either:
 - Buy energy from a GB generator to sell in another country; or
 - Buy energy from another country to sell in GB.

Further worked examples can be found in Attachment A, including an explanation of how scaling for transmission losses affects Interconnector Users' Metered Volumes.

As well as Interconnector Users, each Interconnector Error Administrator (IEA) is automatically assigned a pair of fixed Production/Consumption Interconnector BM Units for the relevant Interconnector, to which the residual error volumes are allocated (see Attachment A for a more detailed explanation of the role of the IEA). IEAs therefore have the same notification error risk as Interconnector Users, although the residual error volumes may be so small that IEAs may choose to make a business decision not to self-balance through an ECVN.

The notification error risk for Interconnector Users arises where the Interconnector operates 'explicit auctions', in which the energy flows across the Interconnector are allocated to Interconnector Users' BM Units and Energy Accounts.

² 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.



Further Examples

For a worked example of the scenario where a generator wishes to sell their energy outside of GB, please see Attachment A.

Attachment A also includes more detail of how transmission losses would affect the BM Unit Metered Volumes.

Where the Interconnector operates 'implicit auctions', in which all flows are allocated to the Interconnector operator's BM Units and Energy Accounts, the risk is passed to the Interconnector operator. As an Interconnector can only be flowing in one direction during any Settlement Period, only one of the Interconnector operators' two BM Units/Energy Accounts will be assigned a Metered Volume in any half hour. However, the flow direction (and therefore the direction of the Metered Volume and which Energy Account it is allocated to) can change on a half-hourly basis. The Interconnector owner would need to have processes in place to ensure that its contracts and Metered Volumes are allocated to the same Energy Account in each Settlement Period in order to avoid imbalance.



What is the proposed solution?

Interconnector Users would only be assigned one BM Unit per Interconnector, and they would be required to elect this BM Unit's P/C Flag to determine whether the BM Unit's net Metered Volume is allocated to their Production or Consumption Account.

This section summarises the P277 Proposed Modification, which is the solution put forward by the Proposer.

The Proposer has developed the solution with the Workgroup's assistance. While the majority of the Workgroup does not believe that the solution better facilitates the Applicable BSC Objectives when compared with the existing BSC arrangements. However, neither the Workgroup nor any Assessment Consultation respondents have identified any Alternative Modification within the scope of P277 which would better facilitate these Objectives than the Proposer's solution. This section describes the other solutions which the Workgroup and consultation respondents have considered but dismissed on these grounds. You can find the full Assessment Consultation responses in Attachment B.

What is the proposed solution?

P277 proposes to allocate each Interconnector User one Interconnector BM Unit per Interconnector that they trade over, rather than the existing pair of Production and Consumption BM Units per Interconnector. The Lead Party would be required to choose the BM Unit's P/C Status by electing a P/C Flag of either Production or Consumption.³ This P/C Status would not change (regardless of whether the actual flow direction is positive or negative) unless the Lead Party subsequently elects to change its P/C Flag from Production to Consumption, or vice versa.

This means that both Export (positive) and Import (negative) volumes for the Interconnector User over that Interconnector would be associated with the same Interconnector BM Unit, and the Lead Party (by choosing its P/C Flag) would elect which of its Energy Accounts the BM Unit's resulting net Metered Volume is allocated to. In the situation described above, where a Party is importing energy over one Interconnector and exporting the same energy out over another, these volumes would be netted in the Party's elected Energy Account – removing any imbalance except for a small residual imbalance due to transmission losses (see worked examples in Attachment A).

The above P277 rules would also apply to each Interconnector Error Administrator, such that both positive and negative error volumes would be allocated to a single IEA BM Unit for the Interconnector and thereby to either the IEA's Production Account only or Consumption Account only (as elected by the IEA through its P/C Flag).

P277 does not impact the Isle of Man Distribution Interconnector. This is because it has a derogation from the Panel under BSC Section K5.2 such that it is not treated as an Interconnector (i.e. it does not have Interconnector BM Units or an Interconnector Error Administrator). Any other future Distribution Interconnector with such a derogation would also not be impacted. However, any future Distribution Interconnectors without such a derogation would be treated the same as a Transmission Interconnector, and so would be impacted by P277.

Attachment A provides further details of the P277 solution requirements, and gives worked examples of the effect on Interconnector Users' imbalance charges. These worked examples include an explanation of how curtailment of an Interconnector would affect Interconnector Users' imbalance charges under both the current and P277 rules.

³ The P/C Flag is the mechanism which CRA systems use to fix a BM Unit's P/C Status as Production or Consumption.

Attachment A also explains how the reduction in the number of Interconnector BM Units under P277 would have a minor effect on BSCCo Charges.

Legal text

Attachment C contains the proposed redlined changes to the BSC to deliver the P277 solution. The Workgroup agrees that these changes deliver the intent of P277, and the Panel provisionally supports this view. A minor change has been made to the text for clarity following a comment from one Assessment Consultation respondent (a change from 'the Interconnector Error Administrator' to 'an Interconnector Error Administrator' in Section T4.1.1). No other Assessment Consultation respondents had any comments on the draft redlining. You can find the full Assessment Consultation responses in Attachment B.

Attachments D-G contain the proposed redlined changes to BSCPs 15, 31 & 65 and the CRA Service Description. P277 amends the Interconnector BM Unit registration process, and places new requirements on Interconnector Users and IEAs to elect their BM Units' P/C Status. The Workgroup has therefore developed the redlining to these Code Subsidiary Documents (CSDs) as part of the Assessment Procedure along with the BSC legal text. This enables the Panel, Parties and Ofgem to have sight of all the changes together, rather than waiting for the CSD changes to be drafted during the implementation phase. The draft CSD changes were not included in the Workgroup's Assessment Consultation. The Panel seeks your views on these draft changes as part of this Report Phase Consultation.

How does P277 interact with P278?

P277 is being progressed in parallel with P278 'Treatment of Transmission Losses for Interconnector Users', as they both relate to Interconnectors. P278 proposes that the Metered Volumes of Interconnector BM Units are no longer scaled for transmission losses through the application of Transmission Loss Multipliers (TLMs). The two Modifications have independent solutions which will work separately or together. However, if both are approved, simultaneous implementation would offer a reduction in the combined central implementation costs (see Section 4).

The worked examples in Attachment A explain the interaction between the P277 and P278 solutions. They include an explanation of how scaling Interconnector Users' Metered Volumes for transmission losses would work under:

- The current BSC rules;
- The proposed P277 rules in isolation of P278; and
- The P277 rules if P278 is also implemented.

Why should the proposed solution be mandatory?

The P277 solution would be mandatory for all existing and future Interconnector Users and IEAs from the P277 Implementation Date. This would make the rules easier to implement, and would avoid any issues or extra costs involved with having two systems in operation simultaneously as explained below.

If the solution was to be made optional, then Interconnector Users and IEAs would be given a choice between keeping their current BM Unit pairs and using the current rules, or switching to a single BM Unit per Interconnector and using the P277 rules. If this were the case, Interconnector Administrators (IAs) would be required to manage two separate sets

of rules simultaneously, and would need to be able to identify which set of rules each Interconnector User was using at any given point in time in order to allocate Metered Volumes to the correct Interconnector BM Units. This would add costs and complexity to IA systems, and would be likely to therefore extend their implementation lead times. Central BSC Systems (CRA and SAA) would also need to be configured to manage both sets of rules, which would increase the central implementation costs and lead times.

If both sets of rules were available, there would be some question about who would choose which set of rules to use in certain cases. For example, it could be possible that an IA could stipulate that they will only accept only one of the two sets of rules on their Interconnector. If an IA does make such a decision, this could prevent a Party from taking advantage of the new rules. It may also mean that Parties could end up using different rules on different Interconnectors, if some IAs elect to use the proposed rules while others elect to keep the current rules.

If both sets of rules were available for a particular Interconnector, then new Users on that Interconnector would need to declare which set of rules they would be using for an Interconnector. This could increase the potential for confusion and misunderstanding at the time of registration.

Parties may subsequently decide they wish to switch from one set of rules to the other. It may be that Parties would only be allowed to switch from the current rules to the proposed rules and could not switch back. However, this still allows the possibility for issues around the time when the pair of BM Units is deregistered and the single BM Unit is registered, especially as this could happen at ad-hoc intervals. IAs and central BSC Agents (CRA and SAA) would need to put processes in place to manage this sort of switch-over beyond the P277 Implementation Date, instead of as a one-off activity.

By having only a single set of rules, the issues highlighted above would not present themselves. There would be a single switch-over on the P277 Implementation Date, and then a single set of rules would be in force from that point onwards.

In addition, the P277 solution is intended to benefit Parties who are trading over Interconnectors. As the effect on Interconnector Users' imbalance charges would be beneficial, the Workgroup has not identified any reason why an Interconnector User would not wish to adopt this solution if P277 is approved.

For these reasons, the Workgroup agrees with the Proposer that the P277 solution should be mandatory. It has therefore not explored the additional impacts, costs and lead times of an optional solution further.

The majority of Assessment Consultation respondents agree with this approach for the same reasons as the Workgroup. One respondent disagrees, and argues that it would be better if Parties were given the choice as to whether to use the old rules or the new rules. This respondent considers that a mandatory change would impose additional costs on Parties who may not want to opt for a single BM Unit/P/C Status. However, the respondent believes that P277 is a beneficial change for Interconnector Users, and has not identified any reason why an Interconnector Users would not wish to use the P277 solution to achieve this benefit. You can find the full Assessment Consultation responses in Attachment B.

Interconnector BM Units, Trading Units and 'embedded benefits'

BSC Sections K4 and K5.7 and BSCP31 allow an Interconnector BM Unit to form part of a 'Class 5' Trading Unit with:

- Other Interconnector BM Units associated with the same Interconnector; and/or
- Other BM Units connected to the same Boundary Point as the Interconnector by Dedicated Assets or Contiguous Assets,

except where an Interconnector BM Unit is associated with an Interconnector that has Boundary Points at more than one Site (in which case the Interconnector BM Unit may only be a Sole Trading Unit on its own).

In practice, no Parties have ever registered a Class 5 Trading Unit although it is possible that some may wish to do so in the future as new Interconnectors are built.

This section summarises the Workgroup's discussion of the interaction between Trading Units and the P277 solution, and the reasons why the Group agrees that forming Trading Units would not address the issue identified by P277.

Normal effects of belonging to a Trading Unit

Forming a Trading Unit of two or more BM Units normally has the following effects:

- **P/C Status is determined at Trading Unit level:** The P/C Status of each BM Unit in a Trading Unit is determined dynamically at the Trading Unit level (and can change at any time) according to the sum of the Generation and Demand Capacity (GC/DC) values of all BM Units in the Trading Unit. Exempt Export BM Units associated with Exemptable Generating Plant are an exception to this rule, and fix their P/C Status independently of their Trading Unit.⁴ This allows Exempt Export BM Units which are embedded (i.e. connected to a Distribution System rather than the Transmission System) to realise 'embedded benefits' by joining a Base Trading Unit which comprises Supplier BM Units, as explained below.
- **Embedded benefits:** Exempt Export BM Units can realise embedded benefits by being 'delivery within offtake'. By being a 'delivering' (exporting) BM Unit, but joining a Base Trading Unit comprising Supplier BM Units with an overall offtaking (importing) status, embedded Exempt Export BM Units can get the following embedded benefits:
 - **Transmission losses:** It is a Trading Unit's overall delivering or offtaking status in a Settlement Period which determines which of the two Transmission Loss Multipliers (delivering TLM or offtaking TLM) is applied to scale its BM Units' Metered Volumes for transmission losses. Delivering embedded Exempt Export BM Units in offtaking Base Trading Units can therefore benefit from receiving the offtaking TLM, regardless of the Exempt Export BM Unit's or Trading Unit's P/C Status. This results in the embedded Exempt Export BM Unit being credited with additional energy (its Export Metered Volume is scaled up). Effectively, the embedded Exempt Export BM Unit is credited with the losses it is deemed to have



What is...

A BM Unit?

A unit of trade in the Balancing Mechanism, such as a generating unit or a collection of consumption meters.

A Trading Unit?

A combination of BM Units, which may have the same or different Lead Parties.

A Base Trading Unit?

The BSC divides Great Britain into 14 geographic areas of electricity demand, called Grid Supply Point Groups. Each has a Base Trading Unit containing all Supplier BM Units within the GSP Group.

A Lead Party?

The Party who registers a BM Unit and is responsible for its Export or Import.

A GC or DC value?

The Lead Party's estimate of a BM Unit's maximum Export or Import.

An Exempt Export BM Unit?

A BM Unit comprising Exemptable Generating Plant (a Generating Plant which does not by itself require a generation licence – e.g. a small wind farm). The person generating electricity at that Plant can elect either itself or another Party to be the Lead Party for the BM Unit.

These terms are all defined in BSC Annex X-1.

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⁴ This was originally an optional ability, but is now mandatory following the implementation of Approved Modification [P268](#) 'Clarify the P/C status process for exempt BM Units' on 23 February 2012.

saved as a result of its generation offsetting demand within the Trading Unit.⁵

- **BSUoS:** Under the Connection and Use of System Code (CUSC), the Transmission Company currently charges Balancing Services Use of System (BSUoS) charges to BM Units on a net Trading Unit basis. Delivering embedded Exempt Export BM Units in offtaking Trading Units can therefore benefit from being paid the BSUoS charge, regardless of the Exempt Export BM Unit's or Trading Unit's P/C Status.
- **TNUoS:** Under the CUSC, certain Exemptable generators are not currently liable for generation Transmission Network Use of System (TNUoS) charges, and are instead paid demand TNUoS charges if their average half-hourly Metered Volume over a Triad Period is an Export.

Note that, with the exception of TNUoS, these embedded benefits arise from being a delivering (exporting) BM Unit in an offtaking (importing) Trading Unit, and are unrelated to the Exempt Export BM Unit's choice of P/C Status.⁶ The ability to elect its P/C Status simply allows the Lead Party to choose which of its two Energy Accounts the Exempt Export BM Unit's Metered Volume is allocated to. This gives the Lead Party a netting benefit whereby the Exempt Export BM Unit's Metered Volumes can be netted in the Lead Party's elected Energy Account with the Metered Volumes of any other BM Units registered to that Lead Party. For example, if the Lead Party is a Supplier and it elects a Consumption P/C Status for the Exempt Export BM Unit, then it can net the Exempt Export BM Unit's positive Export volumes against the negative Import volumes of its other Supplier BM Units in its Consumption Energy Account for the same Settlement Period. There is no within-BM Unit netting benefit, as the Exempt Export BM Unit can only be flowing in one direction (either exporting or importing) in any given Settlement Period.

Effects of Trading Unit membership on Interconnector BM Units

Forming a Class 5 Trading Unit would have the following effects:

- **P/C Status:** As the P/C Status of Interconnector BM Units is fixed and cannot change under the existing BSC rules, changing its GC/DC values or joining a Trading Unit has no effect on an Interconnector BM Unit's P/C Status. This would also continue to be the case under the P277 solution, as the Interconnector BM Unit's P/C Status would be fixed as either Production or Consumption as elected by the Lead Party. It would be a mandatory step in the P277 Interconnector BM Unit registration process for the Lead Party to elect the BM Unit's P/C Status, and this P/C Status would not subsequently change (regardless of its GC/DC values or those of other BM Units in its Trading Unit) unless the Lead Party explicitly elects to change it. Under both the current and proposed P277 rules, there is therefore no risk of an Interconnector BM Unit's P/C Status being set or changing without the Lead Party's knowledge (i.e. the issue identified in Approved Modification P268 cannot arise).

⁵ You can find a more detailed explanation of how the BSC currently allocates transmission losses in the P278 Draft Modification Report.

⁶ Whether a Trading Unit is considered to be 'delivering' or 'offtaking' is determined according to the sum of its BM Units' actual Metered Volumes in a given Settlement Period (see BSC Section T2.1). This is therefore separate to a BM Unit's P/C Status, which is determined according to the sum of the GC/DC values of all BM Units in its Trading Unit (with the exception of Exempt Export BM Units which have explicitly elected their P/C Status).

- **Transmission losses:** BM Units in Class 5 Trading Units (whether purely Interconnector BM Units or a mixture of Interconnector and other BM Units) would obtain a netting benefit in the application of TLMs. This is because it is the Trading Unit's net Metered Volume in a given Settlement Period which would determine whether each BM Unit receives either the delivering or offtaking TLM, according to whether the Trading Unit is net delivering (Exporting) or offtaking (Importing). Although an Interconnector can only physically flow in one direction during a Settlement Period, this is the net flow after taking account of all the individual Interconnector BM Unit flows (which can be a mixture of Exports and Imports in a given Settlement Period).⁷ BM Units in Class 5 Trading Units would therefore be able to have TLMs applied to their BM Units based on the Trading Unit's overall net flow, and would obtain a benefit if the individual Metered Volumes of the different BM Units in that Trading Unit were a mix of Exports and Imports in a given Settlement Period. This is the case under the existing BSC rules, and would continue to be true under P277.⁸
- **BSUoS:** BSUoS charges are applied on a net Trading Unit basis. BM Units in Class 5 Trading Units (whether purely Interconnector BM Units or a mixture of Interconnector and other BM Units) would obtain a netting benefit in BSUoS charges, if the individual Metered Volumes of the different BM Units in that Trading Unit were a mix of Exports and Imports in a given Settlement Period. This is the case under the existing BSC/BSUoS rules, and would continue to be true under P277.⁹
- **TNUoS:** There would be no TNUoS benefit for BM Units in Class 5 Trading Units. This is the case under the existing BSC/TNUoS rules, and would be unaffected by P277.

P277 would allow an Interconnector User, by electing the P/C Status of its Interconnector BM Unit, to choose which of its two Energy Accounts the Interconnector BM Unit's Metered Volume is allocated to. This would give the Interconnector User a netting benefit whereby the Interconnector BM Unit's Metered Volumes could be netted in its elected Energy Account with the Metered Volumes of any other BM Units (including any other Interconnector BM Units) for which it is the Lead Party. There would be no within-BM Unit netting benefit under P277, as an Interconnector BM Unit can only be flowing in one direction (i.e. either exporting or importing) in any given Settlement Period. The treatment of Interconnector BM Units under P277 can therefore be viewed as similar to the existing BSC arrangements for Exempt Export BM Units. See Section 6 for the Workgroup's views on the appropriateness of this.

⁷ This is known as 'superposition'. If the net traded position across all Interconnector Users can be met within the physical capacity of the Interconnector then superposition would allow these trades to occur. Superposition is across different Parties trading on the same Interconnector, as individual Interconnector BM Units can only flow in one direction in any Settlement Period. P277 therefore has no effect on superposition.

⁸ You can find details of the potential materiality of this benefit in the separate P278 Draft Modification Report.

⁹ Note, however, that National Grid has recently raised [CUSC Modification Proposals](#) 201 and 202 to remove BSUoS charges from generators and Interconnector Users respectively. CMP201 and CMP202 may therefore affect this benefit, but the effect would be the same regardless of whether P277 is approved. CMP202 interacts with (though is not dependant on) P278, and you can find more details in the separate P278 Draft Modification Report.

Why don't Trading Units solve the P277 issue?

If all the current Interconnector BM Units formed Class 5 Trading Units, this would not resolve the imbalance issue highlighted by P277. This is because Interconnector BM Units would still be allocated in fixed Production/Consumption pairs, such that Export and Import volumes would continue to be allocated separately to a Party's Production and Consumption Energy Accounts.

The Workgroup notes that another possible approach could be to allow Interconnector BM Units to form a more aggregated Trading Unit across all Interconnectors, rather than per Interconnector as currently. However, this would still require a move to a single Interconnector BM Unit with an electable P/C Status (either one BM Unit per User and Interconnector, or a single Interconnector BM Unit per User across all Interconnectors) in order to resolve the imbalance issue highlighted by P277. The Group considers that the only extra benefit of this solution, compared with that put forward by the Proposer, is that it would allow additional Metered Volume netting with associated transmission losses and BSUoS benefits. The Group notes that there are separate proposed changes under the BSC and the CUSC to remove transmission losses (P278) and BSUoS (CMP202) charges from Interconnector Users. The Group has therefore concluded that this alternative approach is best considered under P278, and you can find more information in the P278 Draft Modification Report.

Potential alternative considered by an Assessment Consultation respondent

One Assessment Consultation respondent has considered whether a possible alternative could be to amend the Interconnector BM Unit P/C Status rules, so that Interconnector BM Units have their P/C Status determined at the Trading Unit level. This would mean that all existing Interconnector BM Units which are Sole Trading Units would have their P/C Status determined dynamically according to the individual BM Unit's Relevant Capacity (GC and DC values). Currently, BSC Section K5.6 states that the GC of a Production Interconnector BM Unit and the DC of a Consumption Interconnector BM Unit shall always be zero. If this provision remained unchanged then the respondent's suggested alternative would not result in any change to the P/C Status of Interconnector BM Units in Sole Trading Units. However, the concept of 'Production Interconnector BM Units' and 'Consumption Interconnector BM Units' reflects that Interconnector BM Units currently have a fixed P/C Status. If this concept was removed, and an Interconnector BM Unit's GC and DC values could both be non-zero, then the P/C Status of an Interconnector BM Unit in a Sole Trading Unit could potentially change at any time. The Lead Parties of Interconnector BM Units would therefore need to have processes in place to ensure that their contracts and Metered Volumes were assigned to the same Energy Account in order to avoid imbalance exposure.

If any Interconnector BM Units formed Class 5 Trading Units, then (under the respondent's suggested alternative) the P/C Status of these BM Units would be determined dynamically according to the sum of the Relevant Capacities (GC and DC values) of the Interconnector BM Units and any other non-Interconnector BM Units in that Class 5 Trading Unit. The respondent suggests that, at its simplest, the two BM Units of a particular Interconnector User could form a Class 5 Trading Unit for a given Interconnector. If the Interconnector User took this same approach for each Interconnector that it traded over, then this could have the effect of allowing all trading by that Interconnector User on the same Energy Account. However, this would only be possible if the sum of the Relevant Capacities in each Trading Unit resulted in all the Class 5 Trading Units, and therefore all the

Interconnector BM Units, having the same dynamically-determined P/C Status. Under any of these Trading Unit scenarios, the P/C Status of the Interconnector BM Units (and thereby which Energy Account their Metered Volume is allocated to) could potentially change at any time. This would be the case regardless of whether the existing GC/DC rules for Interconnector BM Units were amended. Again, the Lead Parties of Interconnector BM Units would need to have processes in place to avoid potential imbalance exposure.

If Interconnector BM Units continued to be allocated in pairs per Interconnector, rather than one BM Unit per Interconnector as proposed by P277, then this potential alternative solution would also result in Interconnector Users having two Interconnector BM Units in a Class 5 Trading Unit for an Interconnector which have an identical P/C Status (either Production or Consumption) in a given Settlement Period. Changes to the BSC's concept of 'Production' and 'Consumption' Interconnector BM Units would be needed, otherwise it would be possible to have 'Production Interconnector BM Units' with a Consumption P/C Status (and whose Metered Volumes are therefore allocated to the Consumption Energy Account) or vice versa.

The respondent concludes that this potential alternative is potentially more complex, has a higher possibility for a Party to make mistakes, and may therefore offer little advantage over the proposed P277 solution. You can find the full Assessment Consultation responses in Attachment B.

Estimated central implementation costs of P277

The total central implementation cost for P277 is approximately £67k. This comprises:

- Approximately £55k in CRA and SAA costs; and
- Approximately £12k (50 man days) in ELEXON effort.

These are one-off implementation costs, and there would be no additional ongoing operational costs.

The CRA and SAA costs include making the relevant SAA system changes to allocate the error volumes to the single IEA BM Units and manual process changes around the deregistering and re-registering of Interconnector BM Units (including a one-off exercise to re-register all existing Interconnector BM Units as explained in Attachment A). These costs also include a small element (approximately £5k) for a one-off manual workaround that will be required to handle the cutover from the old to new rules for Interconnector Administrators, due to the different time zones in which they operate. This is covered in more detail below.

The ELEXON costs include managing the implementation project and updating the relevant BSC Sections, Code Subsidiary Documents and other documentation.

If P277 is implemented at the same time as P278 'Treatment of Transmission Losses for Interconnector Users', a cost-saving of 25-30% can be made on their combined separate costs. Note, however, that the timing of Ofgem's decisions on P277 and P278 will determine whether the two Modifications are implemented in parallel. P277 has a longer implementation lead time than P278. As P278 is required to ensure GB's compliance with European legislation, it may be that Ofgem determines that P278 should be implemented earlier than P277. The Group's proposed Implementation Dates for P277 and P278 give Ofgem the flexibility to approve both changes for the same BSC Release or separate Releases as appropriate. See the P278 Draft Modification Report for more information.

Indicative Industry costs of P277

The costs for Interconnector Administrators and Interconnector Error Administrators of implementing P277 would be in the order of £100k per affected IA/IEA. Interconnector Users would incur costs of up to £35k per affected Party. Note that some Parties provided confidential cost and impact information, which has not been seen by the Workgroup or published on the ELEXON website but will be provided to Ofgem. The confidential information provided is, however, broadly consistent with the non-confidential information given by other Parties.

These costs would mainly be one-off costs to make the relevant amendments to systems, deregister/register the necessary Interconnector BM Units, elect P/C Flags for the new BM Units, submit other necessary BM Unit registration data and amend any existing ECVNs/MVRNs. See Attachment A for a more detailed description of the solution requirements and their impact on Parties.



Industry Impact Assessment

The full non-confidential responses made by Parties to the Industry Impact Assessment can be found on the [P277](#) page of the ELEXON website.

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Parties have not identified any material ongoing cost-savings as a result of P277, although some noted a reduction in trading risk. Some members of the Workgroup questioned the benefits of P277 if there would be no significant administrative savings. The Proposer noted that P277 is primarily about risk-management, and there would only be significant savings if they were regularly getting their ECVNs wrong. However, that does not necessarily mean that having to manage this notification risk is appropriate.

Parties have stated minimal cost-savings if P277 is implemented at the same time as P278.

Manual workaround to manage implementation across two time zones

An issue relating to different time zones was raised during the industry impact assessment. Both the IFA and BritNed IA/IEA systems work to Central European Time (CET), whereas BSC Central Systems work to London time.

From the perspective of the BSC arrangements, P277 will be implemented on a Settlement Day basis – i.e. from the start of the first Settlement Period on the P277 Implementation Date. However, the central BSC Agents will need to operate a temporary workaround with IFA and BritNed for a few hours on the Implementation Date in order to manage the necessary Interconnector BM Unit deregistrations and registrations for P277 under CET. This is another reason to favour a simpler mandatory solution over a more complex optional one.

ELEXON has investigated how this cut-over can be managed in a way that has least impact on Parties, and ensures that Parties are able to correctly register and use their Interconnector BM Units in Settlement from the first Settlement Period on the P277 Implementation Date (including submitting the necessary BM Unit registration data). ELEXON has agreed a manual workaround with IFA, BritNed and BSC Agents, and the Workgroup has endorsed this approach. Further details of this manual workaround can be found in Attachment A. ELEXON will liaise with all affected Parties during implementation to ensure a smooth transition between the old and new rules.

This workaround will not affect the Moyle Interconnector or the forthcoming East-West Interconnector, as their systems work to London time.

P277 impacts

Impact on BSC Systems and process	
BSC System/Process	Impact
CRA	Changes will be required to how the CRA assigns Interconnector BM Units and their P/C Flags. See Attachment A for more details.
SAA	Changes will be required to allocate the Interconnector Error volumes to the single IEA Interconnector BM Units. See Attachment A for more details.

Impact on BSC Parties and Party Agents

- Each future Interconnector User and IEA will be required to have only one Interconnector BM Unit per Interconnector and to elect that BM Unit's P/C Flag/Status.
- Each existing Interconnector User and IEA will need to deregister their existing pair of BM Units per Interconnector, reregister a replacement single Interconnector BM Unit per Interconnector and elect the P/C Flag/Status of their replacement Interconnector BM Unit(s).
- IAs and IEAs will also need to assign flows to the correct BM Units.

See Attachment A for more details.

Impact on Transmission Company

National Grid will need to re-register Interconnector BM Units within their systems as a one-off exercise. See Attachment A for more details of this solution requirement. You can find a copy of the Transmission Company's full impact assessment on the [P277](#) page of the ELEXON website. This impact assessment identifies that P277 would have a low implementation cost for the Transmission Company, although the response does not quantify the exact cost.

Impact on ELEXON

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

Impact on Code

Code Section	Impact
Section K	Changes will be required to implement the solution. See draft legal text in Attachment C.
Section Q	
Section R	
Section T	
Section X – Annex X-1	

Impact on Code Subsidiary Documents

CSD	Impact
BSCP15	Changes will be required to reflect the new registration process for Interconnector BM Units, including the new requirement for the Lead Party to elect the BM Unit's P/C Status. See draft redlining in Attachment D.
BSCP31	A minor change will be needed to clarify that the P/C Status of Interconnector BM Units will be fixed by the Lead Party and will therefore remain unaffected by their Trading Unit's Generation Capacity and Demand Capacity values. See draft redlining in Attachment E.

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Impact on Code Subsidiary Documents	
CSD	Impact
BSCP65	Minor changes will be required to require new IEAs to follow the process in BSCP15 in order to elect the P/C Status of their single Interconnector BM Unit. See draft redlining in Attachment F.
CRA Service Description	Changes will be required to implement the solution. See draft redlining in Attachment G.

Impact on other Configurable Items	
Configurable Item	Impact
CRA User Requirements Specification	Changes will be required to implement the solution. The necessary redlined changes will be developed and consulted on as part of the implementation project if P277 is approved.
SAA User Requirements Specification	Changes will be required to implement the solution. The necessary redlined changes will be developed and consulted on as part of the implementation project if P277 is approved.

Other Impacts	
Item impacted	Impact
ELEXON Info Sheets	Updates will be needed to the BM Units and P/C Status Information Sheets. ELEXON will make the necessary changes as part of the implementation project if P277 is approved.

Recommended Implementation Dates

The Workgroup's recommended Implementation Dates for P277 are:

- 28 February 2013 (February 2013 BSC Systems Release) if ELEXON receives Ofgem's decision on or before 28 May 2012;¹⁰ or
- 27 June 2013 (June 2013 BSC Systems Release) if ELEXON receives Ofgem's decision after 28 May 2012 but on or before 27 September 2012.

The implementation lead times which impact assessment respondents requested from the point of Ofgem decision to the point of implementation ranged from minimal to 3 months for Interconnector Users and from 4-12 months for IAs/IEAs.

The longest requested lead time was 9-12 months from SONI. ELEXON subsequently clarified with SONI that this is because the new East-West Interconnector between GB and Ireland is currently being commissioned and is due to begin operations around September 2012. SONI will be the IA/IEA for this new Interconnector. Systems for the East-West Interconnector have been designed using the current rules for Interconnector BM Units (i.e. two BM Units per Interconnector User). Implementing P277 close to this date would require changes to the systems for this Interconnector during a critical time when they will be focussing on beginning operations. As a result, they would struggle to implement P277 in the November 2012 Release. However, SONI has confirmed that they could implement P277 in the February 2013 Release providing they have at least 9 months' lead time – making this the earliest viable Release for P277. All other requested lead times are compatible with a February 2013 implementation.

No Assessment Consultation respondents disagree with these Implementation Dates. You can find the full Assessment Consultation responses in Attachment B.

¹⁰ P277 will be sent to Ofgem for decision in mid-April 2012.

Is P277 discriminatory?

The Workgroup has considered whether treating Interconnector Users differently to other types of Party would give rise to due or undue discrimination.

Historically, Interconnectors have been treated the same as other Parties to the BSC. Energy entering GB over an Interconnector has been considered to be an Export onto the GB Transmission System and therefore equivalent to GB generation. Similarly, Energy leaving GB over an Interconnector has been considered to be an Import from the GB Transmission System and therefore equivalent to GB demand.

Under the current BSC arrangements, vertically-integrated companies that consist of both licensed generation and licensed supply face the same issue that has been highlighted by P277. Their licensed generation is allocated to their Production BM Units/Energy Account, while their licensed supply is allocated to their Consumption BM Units/Energy Account. The Party would then need to use ECVNs to 'self-balance' their position in each Account and avoid imbalance charges.

This two-Account system has been in place since NETA Go-Live in 2001. It was designed to keep licensed generation and licensed supply volumes separate, in order to encourage vertically-integrated companies to trade to balance their position. It was also designed to prevent vertically-integrated companies from achieving 'consolidation benefits', and thereby having a trading advantage over non-portfolio players and small Parties who may only operate in one side of the market.¹¹

Under a single-Account system, Parties with both generation and supply would be able to automatically net their volumes. They would then only be required to trade the difference between each side in order to balance their position.¹²

The Group notes that it is outside the scope of P277 to expand the solution to allow all BM Units to elect their P/C Status, as the identified issue/defect in the Modification Proposal relates specifically to Interconnector BM Units.

Arguments why P277 can be considered undue discrimination

The majority of the Group believes that P277 would allow Interconnector Users to avoid notification risk more easily than other Parties, and that this would give them an advantage over other Parties who are required to keep their licensed generation and supply separate and therefore need to self-balance through ECVNs.

These members believe that vertically-integrated Parties face the same notification error risk every day, and note that there have been many examples of Parties who have been caught out by the current rules (particularly around NETA Go-Live, when the numbers of errors in contract notifications required the introduction of a Past Notification Error claims process to resolve them).¹³

These members consider that Interconnector Users are in competition with GB generators and Suppliers as Trading Parties, and that an Interconnector User who is trading across GB borders still takes up a physical position in GB. These members believe that allowing Interconnector Users, but not other GB Parties, to avoid notification risk would be undue

¹¹ See Section 4.3 of the 1999 [Ofgem/DTI conclusions document](#) on the NETA arrangements.

¹² You can find the Workgroup's further discussion of these 'consolidation benefits' later in this Section 6.

¹³ See the Group's further discussion on this point below.

discrimination. They would potentially be supportive of a wider Modification that offered this ability to all Parties, but note that this is outside the scope of P277.

Arguments why P277 can be considered due discrimination

While generation and supply are separately-licensable activities, a Party does not require a licence in order to become an Interconnector User and trade over an Interconnector (it is the Interconnector Agreement for the relevant Interconnector which requires them to sign up to the relevant industry codes, including the BSC). This means there is no licence requirement for them to ring-fence their business in the same way as licensed generators or Suppliers. However, under the BSC they are required to ring-fence their Energy Accounts in the same way as licensed Parties and are therefore exposed to the same bureaucracy.

Exemptable Generating Plant (Generating Plant which, in isolation of any other generation assets owned by the Lead Party, would not require a Generation Licence) can register an Exempt Export BM Unit. As described in Section 3, the Lead Party can elect the Exempt Export BM Unit's P/C Status, thus allowing them to choose which of their Energy Accounts the BM Unit's Metered Volumes are allocated to. This provision has been in the BSC since NETA Go-Live.¹⁴ It could be argued that Interconnector Users, who are also licence-exempt, should be offered this same 'light touch' treatment.

A minority of Workgroup members are sympathetic to this view, but are unsure how meaningful the comparison is between Interconnector Users and Exemptable generators. These members note that licence exemptions for generators are based partly on size, which is unlikely to be an applicable argument for Interconnector BM Units. They note that, if it can be established that the original reason why Exempt Export BM Units were allowed to choose their P/C Status at NETA Go-Live is because they do not require a Generation Licence, then they could be supportive of applying the same principle to Interconnector BM Units. ELEXON has been unable to identify any original NETA documentation which makes this link, although that does not necessarily mean the principle is invalid.

Some Workgroup members note that a Party does not need to have any physical generation or supply assets in order to trade across an Interconnector. They consider that this, when considered in a wider European context (see below), could justify different treatment for Interconnector Users.

What is the wider European picture?

The Workgroup has considered the wider European picture and the intention of the Third Package to remove barriers to cross-border trades and promote a single European energy market. When the current GB arrangements were established, Interconnector trading was considered only in the context of the GB market – i.e. energy entering or leaving the GB Transmission System. This gave rise to the current arrangements where Interconnector Users have pairs of BM Units, and energy entering GB is treated as equivalent to GB generation while energy leaving GB is treated as equivalent to GB demand.

¹⁴ Initially, it was an optional ability which just applied to Exempt Export BM Units which were sole Trading Units on their own. In the absence of any explicit election by the Lead Party, the BM Unit's P/C Status was dynamically-determined according to the BM Unit's GC/DC values. In 2003, Approved Modification P100 allowed Exempt Export BM Units to join Trading Units and achieve embedded benefits. P100 left electing P/C Status as an optional ability for these BM Units, whose P/C Status would be dynamically-determined according to GC/DCs at the Trading Unit level in the absence of any explicit election. Under Approved Modification P268, which was implemented on 23 February 2012, it is now mandatory for all Exempt Export BM Units to explicitly elect their P/C Status.

Many financial traders (or 'intermediaries') trade energy between countries, buying energy in one country and selling it in another. This involves having to trade the energy across the intervening Interconnectors.

If a financial trader buys and sells energy purely within the GB market, then they do not take a physical position and are considered by the BSC to be a non-physical trader (i.e. they do not need to register BM Units and have no Metered Volumes allocated to them). However, if they wish to trade from or via GB to countries outside GB, then they need to trade the energy across the relevant Interconnector. In doing so, they have to register Interconnector BM Units under the BSC and take up a physical position in the GB market. BSCP65¹⁵ considers Interconnector Users to be physical Trading Parties because they register BM Units and have Metered Volumes. The Party is then required to balance their physical position in the GB market in order to avoid BSC imbalance charges.

Some Workgroup members suggest that, when considered in the context of a single European energy market, a Party who is simply 'transiting' energy through GB (i.e. is buying energy in one country and transporting it through GB to sell in another country) could conceptually be considered to have no overall physical position in GB. The Proposer believes that Interconnectors are not equivalent to generators or Suppliers, arguing that they are instruments to balance markets (with associated social welfare benefits). Other members disagree, and argue that Interconnector Users take a physical position in the GB market through their Metered Volumes and are therefore competing with other GB Trading Parties.

The Group notes that the new Applicable BSC Objective (e) relates to compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency for the Co-operation of European Regulators (ACER). The Electricity and Gas (Internal Markets) Regulations 2011 make amendments to electricity and gas legislation and licences in order to implement the Third Package. The Third Package includes Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity ("the Electricity Regulation"). The Group notes that, at this stage in the development of European legislation, there is no specific requirement for GB to move towards a single Energy Account for either Interconnector Users or other Parties. It notes that the Framework Guideline on balancing may cover this, although it is too early to say (some member believe this is more likely to focus on products than market harmonisation). Some members consider that there is therefore no reason to treat Interconnector Users differently to other Parties.

However, other members note that Objective (e) relates to the Third Package, and that the intention of the Third Package legislation is to encourage cross-border flows and move towards a single European energy market. Some members question whether it is consistent with this objective that companies who are 'transiting' energy from one country to another via intervening Member States are exposed to the full bureaucracy and complex trading arrangements of every market they cross. These members consider that there may be an argument that P277 promotes competition in a broader European sense. However, with the exception of the Proposer, these members believe that P277 would be unduly discriminatory when considered purely in the context of GB competition. On balance, these members either:

- Agree that the negative effect of P277 on GB competition would outweigh any broader European benefits; or

¹⁵ [BSCP65](#) 'Registration of Parties and Exit Procedures'.

- Believe that (in the absence of any specific EC direction to allow trading on a net basis) any wider European benefits are unproven and/or outside the scope of the Applicable BSC Objectives.

The Group notes that GB is unusual in requiring separate Production and Consumption Accounts, with other European countries allowing Parties to trade on a net basis. Most members do not believe that this represents a barrier to trading in GB, noting that each European country has its own complex market arrangements which are a condition of trading in that country. These members note that all GB Trading Parties (with the exception of Exemptable generators) are subject to the same notification risk. They therefore do not agree with the suggestion that P277 would create a level playing field; believing that it would actually remove an existing level playing field between GB participants. Some members believe that transit flows through one country to another should be facilitated by national Transmission System Operators co-operating to develop products, rather than by market harmonisation (e.g. there is no product that currently exists which allows trading between the French price hub and Northern Ireland price hub without being exposed to the GB arrangements).

The Proposer believes that while the notification risk created by two Accounts would not necessarily make companies refrain from trading in the GB market, it does represent a bigger risk and administrative burden than balancing in other countries. The need to balance two separate Energy Accounts and the mechanisms for doing so may cause them confusion, and could result in them being exposed to imbalance charges even if they are, in reality, balanced. The Proposer suggests that, although Interconnectors add or remove energy from individual Transmission Systems, they are not true generation or demand. Under the Third Package, Interconnectors are increasingly viewed as part of the Transmission System instead. The Proposer considers that the changes proposed in P277 would help move towards greater European harmony. The Proposer believes that it should be considered whether the way GB treats Interconnectors is still correct when examined as part of the wider European picture.

Assessment Consultation respondents' views

The majority of Assessment Consultation respondents believe that P277 would give rise to undue discrimination. The reasons cited by these respondents are broadly similar to the Workgroup's majority views above – particularly the view that P277 would give Interconnector Users an advantage over vertically-integrated companies, who also have the potential to incur imbalance through errors in submitting ECVNs.

Some respondents note that, while Exempt Export BM Units are able to elect their P/C Status, Exemptable status is based on the size of the Generating Plant. One respondent argue that this ability has its origins in special privileges given to small generators, who could be considered to be 'negative consumption' rather than generation. This respondent believes that this principle could only consistently be applied to small Interconnector Users (for example those below 50MW), but notes that this would require a new class of Interconnector User to be defined and subsequently monitored.

A minority of respondents believe that, while P277 would give rise to discrimination, this discrimination is not undue.



Assessment Procedure Consultation

The full responses made by Parties to the Assessment Procedure Consultation can be found in Attachment B.

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One respondent compares Interconnector BM Units to BM Units relating to pumped storage generators, whose metered generation and demand volumes can be allocated to a single BM Unit and thereby only one Energy Account. The respondent argues that pumped storage sites, like Interconnectors, can be considered instruments to increase economic welfare across Europe because they can be called upon to balance individual transmission systems in times of imbalance. Like Interconnectors, the metered flow of a pumped storage generator can only be in one direction in any Settlement Period (i.e. it is either pumping/consuming or generating). The Workgroup has considered this view, but notes that the P/C Status of a pumped storage generator's BM Unit depends on the Relevant Capacity (GC and DC values) of that BM Unit plus any other BM Units in its Trading Unit, rather than its actual Metered Volume. The Group considers that this situation, in which the BM Unit's P/C Status is determined dynamically and can change at any time, is different to the principle raised by P277. This is because P277 proposes that Interconnector BM Units should be able to elect their P/C Status independently of their own Relevant Capacity and that of any other BM Units in their Trading Unit – thereby avoiding notification risk.

Some respondents note that Interconnectors are increasingly being seen as part of the Transmission System in Europe, and believe that P277 could remove a barrier to cross-border trade and promote competition in the broader European context. These respondents refer to the social welfare benefits of Interconnectors and the move towards a single European energy market. These respondents' arguments are broadly similar to those previously considered by the Workgroup and described above.

You can find Assessment Consultation respondents views on the Applicable BSC Objectives later in this Section 6, and the full responses in Attachment B.

Workgroup's further discussion at its final meeting

At the Workgroup's final meeting, the Proposer raised a new argument which they had not previously expressed in the Modification Proposal, Workgroup meetings or their consultation response. The other Workgroup members agree that further analysis would be needed before they could fully assess the strength of this argument, and note that undertaking the analysis would require an extension to the Assessment Procedure timetable. They agree that, even if they could be persuaded of the merits of this particular argument, it would not change their overall view that P277 is unduly discriminatory and should be rejected. The Workgroup has therefore agreed not to undertake this extra analysis. The rest of this section provides further information.

At its final meeting, the Workgroup has discussed whether P277 has the potential to give Interconnector Users trading advantages over other Parties in the following three ways:

- **Removal of 'notification risk':** P277 would remove the risk that Interconnector Users (and, where applicable, IEAs) fail to submit, or make errors in, the ECVNs needed to balance their position and are exposed to imbalance charges as a result. It would also remove the administrative effort of submitting these ECVNs. It would not remove this risk or administrative effort for other types of Parties who also need to balance their position through ECVNs, such as vertically-integrated Parties with licensed generation and supply businesses. The Group believes that, by removing this notification risk/effort for some types of Party and not others, P277 would be unduly discriminatory. Some Group members would support a broader Modification Proposal to remove notification risk for all Parties, although

they note that Ofgem has historically taken the position that it is up to Parties to manage this risk.¹⁶

- **Creation of 'netting benefit':** P277 would allow Interconnector Users to net Export and Import volumes in a single Energy Account (as shown in the worked examples in Attachment A), but would not allow vertically-integrated Parties with licensed generation and supply volumes to do the same. However, the Group agrees that both Interconnector Users and other Parties can already net volumes in this way by using ECVNs to transfer firm volumes from one of their Energy Accounts to the other and thereby avoid predicted imbalances. A trading advantage would therefore only arise through this netting ability if it enabled Interconnector Users to offset imbalances that cannot be predicted and thereby cannot be avoided through the use of ECVNs (see below). The Group notes that netting Interconnector BM Unit Metered Volumes of opposite directions in the same Energy Account makes no difference to Interconnector Users' exposure to transmission losses. This is because TLMs are applied at the BM Unit level and are unaffected by which Energy Account the resulting scaled BM Unit Metered Volumes are allocated to (as shown in the worked examples in Attachment A).
- **Creation of 'consolidation benefit':** The Group agrees that consolidation benefits can arise where a Party is able to offset unpredictable volume volatility in different parts of its portfolio (e.g. in its licensed generation and supply businesses) by 'netting' the resulting imbalance volumes of opposite directions in a single Energy Account. The Group notes that the original reason behind the BSC's two Energy Accounts was to prevent vertically-integrated Parties achieving such benefits and thereby having a trading advantage over non-portfolio players. The majority of Group members are unsure whether P277 would create a material consolidation benefit for Interconnector Users, and therefore whether it would be unduly discriminatory in this regard, for the reasons described below.

P277 and potential consolidation benefits

The new argument put forward by the Proposer at the Workgroup's final meeting is that, unlike generators and Suppliers, Interconnector BM Unit Metered Volumes are not subject to volatility. Generators may generate more or less than anticipated (particularly intermittent forms of generation such as wind farms), and Suppliers' customers may use more or less demand than predicted. Allowing vertically-integrated generators and Suppliers to consolidate their licensed generation and supply volumes in one Energy Account would therefore allow them to offset any unpredictable volatility in each half of their portfolio which could not be addressed by a firm volume transfer through an ECVN.

This benefit would only arise where the volatility was in opposite directions, such that overall the Party generates more and consumes more than expected, or vice versa. Where this was the case, netting the actual generation and supply volumes (and their uncorrelated/counter-acting imbalances) would leave the Party with a smaller net imbalance position than would be the case had it simply transferred its expected

¹⁶ There have been a significant number of BSC Modification Proposals relating to notification risk. Following a large number of notification errors made by participants in the first few weeks after NETA Go-Live in 2001, Ofgem approved the introduction of a one-off Past Notification Error (PNE) claims process under Modification Proposal [P37](#). However, Ofgem's position with regard to ongoing notifications has historically been the following as stated in its P37 decision letter: "Ofgem would therefore expect that the test for a reasonable and prudent Party would effectively become progressively more stringent in relation to notification errors occurring later in time. As such, it is Ofgem's view that it would only be in relation to errors which occurred during the early days of NETA that it could sensibly be argued that a reasonable and prudent operator could not have either foreseen or been expected to bear the risk of alleged errors and their consequences".

generation to its Consumption Account (or expected consumption to its Production Account) through an ECVN.

The Proposer argues that Interconnector BM Units' Metered Volumes are generally 'firm', and are not usually subject to volatility. Any volatility that does occur in an Interconnector flow is generally allocated to the IEA, and is not distributed among the relevant Interconnector Users. An exception to this is when curtailment occurs over an Interconnector, in which case the Metered Volumes of all affected Interconnector Users are scaled down proportionately as explained in Attachment A. The Proposer argues that Interconnector Users' flows are therefore more comparable to financial trades than physical generation or supply, and that allowing them to net volumes in one account would simply be equivalent to an ECVN.

The other Workgroup members have some sympathy with this view where a Party is purely an Interconnector User without any licensed GB generation or supply business. However, these members consider that there are possible counter-arguments to the Proposer's view as follows:

- While capacity on the IFA and BritNed Interconnectors is 'firm' (i.e. Users get the capacity they buy unless there is a curtailment), the arrangements for the Moyle Interconnector and future East-West Interconnector are different. For these Interconnectors, capacity is not firm and depends on the offers submitted by Users and the prices in the Irish Single Electricity Market (SEM). This can lead to Parties not receiving the volumes they were expecting. The extent of this 'volume volatility' will depend on the ability of Interconnector Users to trade out their position prior to Gate Closure. A 'consolidation benefit' could only arise under P277 where the Party experienced such volatility on two or more separate Interconnectors in the same Settlement Period, and where the volatility was in opposite directions (i.e. the Party's Export over one Interconnector and Import over another were both scaled down).
- Under P277 it could be possible for Interconnector Users to offset volume volatility where curtailments on two or more separate Interconnectors occur in the same Settlement Period. A 'consolidation benefit' could only arise in this scenario where the curtailments resulted in volume volatility in opposite directions.
- While some Interconnector Users may not have GB generation or supply businesses, others will be part of vertically-integrated companies with licensed generation and supply volumes (e.g. 'Big 6' players). P277 could therefore allow such Parties to net their Interconnector BM Unit Metered Volumes in the same Energy Account as either their other generator BM Unit Metered Volumes or their Supplier BM Unit Metered Volumes, depending on the P/C Status they choose for their Interconnector BM Unit(s). However, this would only lead to a 'consolidation benefit' if there was volatility in their Interconnector BM Unit volumes – as simply netting a firm Interconnector Metered Volume is already achievable through ECVNs. If such a consolidation benefit could be achieved, this could give Interconnector Users who also have GB generation and supply volumes a trading advantage over other Parties without the same portfolio (whether purely Interconnector Users, purely generators, purely Suppliers, or Parties who have GB generation/supply volumes but do not trade over Interconnectors).

The other Group members believe that the extent of any 'consolidation benefit' under these scenarios could be small, although it could increase in the future as more Interconnectors are built. The Group agrees that further analysis would be needed to

establish whether the possible consolidation benefit under P277 is material, and therefore whether P277 would be unduly discriminatory in this regard.¹⁷

ELEXON's advice is that, for such analysis to be meaningful, it may be necessary to compare the possible P277 consolidation benefit for Interconnector Users against the possible consolidation benefits for vertically-integrated Parties if all Parties were able to net volumes in one Energy Account (for example, if the P277 benefit proved to be much smaller the conclusion could be that P277 is not unduly discriminatory in this respect). Undertaking this analysis would mean investigating all possible sources of volume volatility for Interconnector Users, generators and Suppliers, and might necessitate a data request to Suppliers for this information.

ELEXON's advice is that such analysis would take at least two months. The Workgroup notes that this would require a significant extension to the P277 Assessment Procedure timetable (removing any possibility of a February 2013 implementation), and associated effort. On balance, it agrees that whatever the results, this analysis would not change its majority recommendation to reject P277. This is because, even if the analysis demonstrated that P277 would not create a material consolidation benefit, the majority of members would still believe that P277 is unduly discriminatory because it removes notification risk for some types of Party and not others. The Group has therefore agreed not to undertake any further analysis.

What are the Workgroup's views on the Applicable BSC Objectives?

The following table contains the Proposer's and the Workgroup's views on each of the Applicable BSC Objectives:

Does P277 better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views ¹⁸
A	<ul style="list-style-type: none"> • Neutral – no impact. 	<ul style="list-style-type: none"> • Neutral – no impact.
B	<ul style="list-style-type: none"> • Neutral – no impact. 	<ul style="list-style-type: none"> • Neutral – no impact.
C	<ul style="list-style-type: none"> • Yes – Reduces notification risk for Interconnector Users. • Yes – Being able to choose P/C Flag would make nominations easier and more transparent. • Yes – There is no potential for consolidation benefits as Interconnector Metered Volumes are not subject to volume volatility in the same way as licensed generation and supply, and Interconnector Users can already net firm volumes 	<ul style="list-style-type: none"> • No – Removing notification risk for Interconnector Users but not other Parties is unduly discriminatory and preferential treatment. On these grounds, cannot support P277 regardless of whether the potential (unquantified) consolidation benefit for Interconnector Users is material. Would potentially support a broader Modification Proposal which removes this risk for all Trading Parties. • No – Don't believe GB arrangements are a barrier to entry, as see non-GB companies entering the market and all GB participants face the same notification risk so it's a level playing field.



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

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency

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¹⁷ The Group also discussed whether any consolidation benefit would have a negative effect on the BSC's Residual Cashflow Reallocation Cashflow (RCRC), but noted ELEXON's advice that it would reduce the overall industry imbalance and therefore RCRC charges.

¹⁸ Shows the different views expressed by the other Workgroup members – not all members necessarily agree with all of these views.

Does P277 better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views ¹⁸
	<p>through the use of ECVNs.</p> <ul style="list-style-type: none"> • Yes – Potentially lowers market entry barriers by reducing notification risk for Interconnector Users. Therefore promotes greater competition and increased Interconnector usage. Facilitating cross-border trade could increase competition in the GB market and give trading opportunities for GB participants. 	<ul style="list-style-type: none"> • No – Sympathetic to argument that there is little potential consolidation benefit for financial traders who use Interconnectors but have no other physical generation or supply assets. However, there is a potential (albeit unquantified and possibly small) consolidation benefit for Interconnector Users who are also licensed GB generators/Suppliers. • No – P277 could be considered to promote competition in the wider European context, but would negatively affect competition within GB.
D	<ul style="list-style-type: none"> • Yes – Reduces need for Parties trading over Interconnectors to submit ECVNs, and the associated administrative effort. • Yes – Reduces complexity in the GB arrangements for Interconnector Users. • Yes – Implementation costs are one-off, while benefits are long-term. 	<ul style="list-style-type: none"> • No – Slightly negative as results in implementation costs to ELEXON/BSC Agents and Interconnector Administrators, and can't see any benefit to central arrangements or material cost/efficiency savings. • No – Issue can already be solved through the correct use of ECVNs. • No/Neutral – ECVNs can be automated, so removing the need to submit them is not a significant efficiency saving. P277 is more about removing the risk of notification errors, which is a competition argument.
E	<ul style="list-style-type: none"> • Yes – Facilitates movement towards harmonisation across Europe and the objective of a single European energy market. 	<ul style="list-style-type: none"> • Neutral – Still too early to measure as the European guidelines and policy are still being formulated. • Maybe – Although not about legal compliance at this stage, could help promote the intention of the Third Package to facilitate cross-border trades and a single European energy market.



Assessment Procedure Consultation

The full responses made by Parties to the Assessment Procedure Consultation can be found in Attachment B.

By majority, the Workgroup believes that P277 does not better facilitate the Applicable BSC Objectives, and therefore recommends that P277 is rejected.

Consultation respondents' views on the Applicable BSC Objectives

The Workgroup has received a higher-than-usual number of responses to its Assessment Consultation. While the majority view of respondents aligns with that of the Group, the Group notes that there is no clear pattern of views by Party type. All respondents are neutral on Applicable BSC Objective (a) and (b), with arguments centring on Objectives (c), (d) and (e).

The majority of Assessment Consultation respondents agree with the Workgroup's majority view that P277 does not better facilitate the Applicable BSC Objectives. The reasons cited

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by these respondents are broadly in line with the majority Workgroup view and, in particular, that removing notification risk for some types of Party and not others would be unduly discriminatory with a negative effect on Objective (c).

One respondent notes that non-physical Trading Parties have no restrictions and can trade on whichever Account they choose. They also question whether the original NETA reasons behind P/C Status and the two Energy Accounts are still valid, noting that various exceptions to the rules have been created over time and the avoided consolidated benefits are unquantified. However, regardless of this, the respondent believes that Interconnector Users take a physical position in the GB market which is in competition with other GB Trading Parties. They believe there is therefore no reason to treat Interconnector Users differently to other physical Trading Parties. They remain open minded as to whether the rules should be amended for all Parties. This response has led to the Group's discussion at its final meeting around whether P277 would create consolidation benefits (see above).

The same respondent argues that trades within the GB market are made at the notional balancing point to which all volumes and most charges are referenced. They consider that a non-physical trader can buy and sell at that notional point without exposure to physical volume only because the physical participants (who are ultimately at the end of these non-physical trades) are all subject to volume, cost and risks at the same reference point. The respondent believes that, if Interconnector Users' physical Metered Volumes became subject to different adjustments to the reference point under P277, then the concept of a common trading point would be undermined because participants would no longer be trading and competing on equal terms.

A minority of respondents disagree with the Workgroup's majority view. The views of those respondents who believe that P277 would better facilitate the Applicable BSC Objectives are generally in line with the Proposer's as detailed above (with the exception of the Proposer's views on consolidation benefits, which were not raised in the consultation and were only discussed at the Group's final meeting).

Some respondents disagree with the Group's view that the existing GB arrangements are not a barrier to entry. One respondent comments that just because non-GB companies have entered the GB market does not mean that barriers do not exist – just that some companies have overcome these barriers.

Some respondents argue that, by removing barriers to cross-border trades into and out of GB, P277 would improve competition and liquidity in the GB market. The Workgroup has discussed this view. Some members do not agree that P277 would improve liquidity, arguing that Interconnector capacity is finite. Others note that some Interconnectors, through 'superposition', accept trades that exceed the Interconnector's capacity on a gross basis provided that the total net traded position is within capacity. The Proposer argues that P277 could increase competition by encouraging different players to trade in GB over existing Interconnectors, as well as encouraging investment in new Interconnectors. However, when considering the effect of P277 on competition, the Workgroup generally agrees that the question of due or undue discrimination is more fundamental to its views.

You can find the full Assessment Consultation responses in Attachment B.



Recommendation

By majority, the Panel initially recommends that P277 is rejected.

Panel's views on the Applicable BSC Objectives

Majority view on Objectives (c) and (d)

The majority of Panel Members agree with the Workgroup's majority view that P277 would not better facilitate Applicable BSC Objectives (c) and (d) for the reasons set out in Section 6.

In particular, these Panel Members agree that Parties can already manage the risk identified by P277 through the use of ECVNs. They note that ECVNs can be automated, and that there would be no significant administrative cost savings to Interconnector Users from P277. They therefore struggle to see a case for change which justifies the implementation costs. Some of these Members have queried the reference to 'notification risk', believing that the real risk is that of being in imbalance. The Workgroup has chosen to use the term 'notification risk' because the majority of its members believe that there is no imbalance risk if ECVNs are used correctly – only if Parties get their notifications wrong. One Panel Member is unconvinced that the potential for human error is a compelling reason for change, as human error is always a risk in many parts of the BSC arrangements. Another Panel Member believes that, while the arguments for and against P277 are finely balanced, there is no evidence that it would improve the overall efficiency of the arrangements while it would result in implementation costs to Parties.

A majority of Panel Members agree with the majority Workgroup view that removing risk for one type of Party and not others would be unduly discriminatory. The Panel agrees that the key question when considering whether applying a particular set of rules to some Parties represents due or undue discrimination is whether there is a relevant difference between these Parties and those to whom the rules are not applied. It notes that different treatment is itself not unduly discriminatory if there is justification for it. However, a majority of Panel Members believe that, in this case, the arguments in favour of treating Interconnector Users differently are not compelling. They agree with the majority Workgroup view that the current arrangements are not a barrier to entry for Interconnector Users. One Panel Member notes that the Workgroup has also identified possible, unquantified, consolidation benefits for Interconnector Users under P277 – for example when using the Moyle Interconnector where capacity is not 'firm'.

Some Panel Members, like some Workgroup members, would potentially support a broader Modification Proposal which applies to all Parties. Other Panel Members are unsure, believing that P277 sets a bad precedent in this direction which would ultimately hurt smaller independent players who do not have balanced portfolios of generation and supply assets and therefore cannot achieve netting/consolidation benefits.

Minority view on Objectives (c) and (d)

A minority of Panel Members agree with the minority Workgroup view that P277 would be due discrimination, and would better facilitate Applicable BSC Objectives (c) and (d), for the reasons set out in Section 6.

They consider that Interconnector Users are already treated differently to other Parties in that they are required to have two Interconnector BM Units, and that this creates an artificial imbalance risk. They therefore believe that the existing arrangements are already an uneven playing field for Interconnector Users. They also note that, as highlighted in the Workgroup's discussions, there are other existing precedents for treating some types of Party differently in this area. For example, Exempt Export BM Units can elect their P/C

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Status and the BSC permits the formation of Trading Units to achieve netting benefits. Finally, they consider that P277 will not remove all notification risk for Interconnector Users, only a specific risk which is artificially created by the BSC arrangements. They note that Interconnector Users would still need to actively manage their position to avoid imbalance.

Views on Objective (e)

A Panel Member believes that the Workgroup's assessment highlights how GB's two-Account system is unusual in Europe. They note that the Proposer clearly sees Interconnectors as a means of moving power between markets, and that the intention of the Third Package is to facilitate cross-border flows. They consider that the artificial imbalance risk which the BSC arrangements create for Interconnector Users could be viewed as 'pancaking' of charges.¹⁹

However, on balance, the Panel agrees that Applicable BSC Objective (e) is not relevant to P277. The Panel notes that there is no specific (effective or draft) European legislation that requires the P/C Status and/or Energy Account arrangements for Interconnectors to be changed. One Panel Member considers that any such changes could pre-empt future debate about the treatment of Energy Accounts across Europe. Other Panel Members note that P277 does not distinguish between Interconnector flows which are pure transits through GB and those which start or end in the GB market. One of these Members is unsure to what extent GB is actually used for transit flows.

Initial recommendation

By majority, the Panel believes that P277 does not better facilitate the Applicable BSC Objectives, and therefore initially recommends that P277 is rejected.

Panel's views on legal text

The Panel unanimously agrees with the Workgroup's view that the proposed changes to the BSC and CSDs deliver the intention of P277.

Panel's views on Implementation Date

Should P277 be approved, the Panel unanimously agrees with the Implementation Date proposed by the Workgroup and detailed in Section 5.

¹⁹ 'Pancaking' of charges refers to the addition of multiple network charges when a Party trades across multiple countries. Further details can be found in the P278 Draft Modification Report.

8 Recommendations

The Panel provisionally recommends to the Authority:²⁰

- That P277 **should not** be made;
- A provisional Implementation Date for P277 (if approved) of:
 - 28 February 2013 if an Authority decision is received on or before 28 May 2012; or
 - 27 June 2013 if an Authority decision is received after 28 May 2012 but on or before 27 September 2012;
- The draft BSC legal text for P277; and
- The draft changes to BSCP15, BSCP31, BSCP65 and the CRA Service Description.

Report Phase Consultation Questions

Do you agree with the Panel's initial recommendation that P277 should be rejected?

Do you agree with the Panel's recommended Implementation Date for P277 (if approved)?

Do you agree with the Panel that the redlined changes to the BSC, BSCP15, BSCP31, BSCP65 and CRA Service Description deliver the intention of P277?

The Panel invites you to give your views using the response form in Attachment H

9 Further Information

More information is available in:

Attachment **A**: Detailed Assessment

Attachment **B**: Assessment Consultation Responses

Attachment **C**: Draft Legal Text

Attachment **D**: Draft Redlining for BSCP15

Attachment **E**: Draft Redlining for BSCP31

Attachment **F**: Draft Redlining for BSCP65

Attachment **G**: Draft Redlining for the CRA Service Description

Attachment **H**: Report Phase Consultation Questions

Further information on P277, including the full Solution Requirements and the complete version of the (non-confidential) impact assessment responses, is available on the [P277](#) page of the ELEXON website.

²⁰ The Authority is the body that governs Ofgem and to whom the Panel makes its recommendations under the BSC.