

# 1 SUMMARY AND RECOMMENDATIONS

## 1.1 Recommendation

The Proposed Modification P7 seeks to allow the allocation of Supplier demand to the same BM Unit in a GSP Group for all Suppliers in a Company Group. An Alternative Modification was proposed to achieve the same business objectives by allowing two or more Suppliers to join a Trading Unit.

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

- **The Proposed Modification should be rejected.**
- **The Alternative Modification as set out in Section 8 of this report be approved and implemented on the Settlement Day one month after such approval.**

## 1.2 Background

Modification proposal P7 was raised by Powergen on the 18<sup>th</sup> April 2001 and was presented to the Panel at its meeting of the 3<sup>rd</sup> May, 2001. The Proposer argued that the Proposal would better achieve the Applicable BSC Objectives of promoting competition by enabling the 'embedded benefits' available to Licence Exemptable Generators (LEGs) to be more easily and more fully realised through contracts with Suppliers. These benefits reflect the costs saved as Licence Exemptable Generators are, broadly speaking, embedded in a distribution network and do not make use of the high voltage transmission system.

At the May meeting, the Panel agreed that the proposal should be submitted to the Definition procedure and that the P7 Modification Group should be established to progress the necessary work. The Definition Report was presented to the Panel on the 31<sup>st</sup> May 2001 and an Assessment procedure was subsequently undertaken.

The Modification Group noted that there are facilities already available under the BSC that enable a LEG to realise embedded benefits with a number of Suppliers. Three facilities are purported to be of relevance; Meter Volume Reallocation Notifications (MVRNs), Change of Supplier process and Meter splitting.

Consideration of these mechanisms by the Modification Group lead to the conclusion that the MVRN facility did not, of itself, allow the LEG to gain embedded benefits from more than one Supplier, since all of the benefits described are associated with Trading Units, rather than purely with credited energy. It was also recognised that full embedded benefits can only be realised where the volume of demand exceeds that of generation in such a Trading Unit.

The Modification Group considered an Alternative Proposal whereby the demand BM Units associated with the Suppliers in the Company Group could together form a Trading Unit. Under the current arrangements, only one Supplier BM Unit may belong to a Trading Unit.

On the basis that the embedded benefits relate to Trading Units, this approach provides a mechanism for improving the likelihood that a LEG could realise embedded benefits for its

entire output. This Alternative Modification has the advantage that it would be more straightforward and less expensive to implement within the BSC than the Original Proposal.

The Group assessed the Modification and prepared an Assessment Report (which included the Alternative Modification) that was presented to the Panel on 26<sup>th</sup> July. The Panel returned the Modification to the Group for further analysis.

The Panel considered the revised P7 Modification Group Assessment Report, which forms Attachment 1 to this Modification Report, at its meeting on 23rd August 2001. The Panel agreed that the Alternative Modification should proceed to the Report Phase and that the draft Modification Report, to be consulted upon, should contain a recommendation to the Authority that the Alternative Modification should be approved and implemented with effect from the Settlement Day falling one month after approval from the Authority.

### **1.3 Rationale for Recommendations**

The Panel endorsed the Modification Group's conclusions that the Alternative Modification would better facilitate the Applicable BSC Objectives as set out in Condition 7A(3) of the Transmission Licence. In particular, it would meet primarily objective 7A(3)(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".

The Alternative Modification also meets the Applicable BSC Objective 7A(3)(d) – 'Promoting efficiency in the implementation and administration of the balancing and settlement arrangements'. It has no impact on the remaining Applicable BSC Objectives set out in Condition 7A(3)(a-b).

These Objectives are achieved by providing a more flexible and extensive mechanism than exists at present for Suppliers and Licence Exemptable Generators to contract with each other and to take advantage of the full potential of the embedded benefits available.

In reaching this conclusion, the Panel took due account of the views of the Proposer, all representations received from interested parties and the views of the Modification Group. This Modification Report should be read in conjunction with the Modification Group's Assessment Report.