Modification proposal:	**Balancing and Settlement Code (BSC): Extension to data provided to the Transmission Company in the TUoS Report (P260)**		
Decision:	The Authority[1] rejects this proposal		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties		
Date of publication:	23 November 2010	Implementation Date:	N/A

Background to the modification proposal

Under the terms of its electricity transmission licence[2], NGET in its role as System Operator for the National Electricity Transmission System (NETS) is required to produce a use of system charging methodology statement setting out the basis of charges for use of the NETS (both generation and demand). NGET levies Transmission Network Use of System (TNUoS) tariffs on both demand and generation users of the NETS. Generation users are charged based on licensable status[3] and whether a station is capable of exporting 100MW or more to the system[4].

Under NGET's current TNUoS charging rules, liability for Generator TNUoS tariffs applies to two broad categories of plant: (i) licensable generation that has a Bilateral Connection Agreement with NGET; and (ii) licensable generation connected to a distribution network (referred to as distributed generation, or "DG") with a Bilateral Embedded Generator Agreement (BEGA) with NGET.

Due to its ability to offset local demand and potential to defer transmission investment to meet a particular level of demand, exemptible DG (i.e. DG under 100MW that does not have a BEGA) is treated as negative demand under the current TNUoS charging rules. This means that it is not liable for the Generator TNUoS tariff and can get paid the Demand TNUoS tariff. Compared to other generators situated in the same geographical region, exemptible DG therefore has the ability to gain a net TNUoS "embedded benefit".

Embedded benefits reflect the ability, under the BSC, for the generators' output to either "sit behind" a supplier, i.e. register the metering system under Supplier Volume Allocation (SVA) and have its output deducted from a supplier's demand requirements and reduce a supplier's demand TNUoS charge[5], or for DG to be paid the Demand TNUoS tariff directly.

There is broad consensus within industry that the current embedded benefit available to exemptible DG is disproportionately higher than any potential savings from deferring transmission investment. In January 2010, NGET undertook a pre-consultation on a transmission charging methodology change proposal, GB ECM-23[6] (Transmission Arrangements for Distributed Generation). The broad objective was to introduce enduring charging arrangements that more accurately reflect the costs and benefits imposed on the system of DG relative to the existing arrangements. NGET's driver for publication was to support its development of an enduring Charging Methodology for DG

[1] The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.
[2] Standard licence condition (SLC) C4 ('Charges for use of system') of the electricity transmission licence.
[3] Generally, all parties with a generating capacity greater than or equal to 100MW are required under the Electricity Act 1989 to hold a generation licence – although parties can seek individual exemption.
[4] TNUoS charges are levied on generators based on transmission capacity booked. To provide an equivalent proxy capacity for demand, half hourly metered user charges are based on their consumption over Triad.
[5] Under the SVA rules, the metered volume of the Balancing Mechanism Unit (BMU) will be included in the supplier's BMU volume as negative demand thus reducing the overall value of the demand and consequently the amount of Demand TNUoS for which the supplier is liable.
[6] Further information about GB ECM-23 is available on NGET's website: http://www.nationalgrid.com

- as currently required by its licence obligations set out in Standard Licence Condition (SLC) C13 of the electricity transmission licence - in time for 1 April 2011[7].

NGET's preferred charging solution, set out in January 2010, is to modify the TNUoS charging rules to enable NGET to charge suppliers on the basis of both their gross half hourly metered import and gross half hourly metered export per GSP group (rather than on a net basis as currently). In developing a potential enduring solution, NGET identified that the data it currently receives in the form of the Transmission Use of System (TUoS) Report[8] under the BSC could be further disaggregated to more accurately identify volumes associated with embedded generation in each GSP group. As a result, NGET raised BSC modification proposal P260 to amend the TUoS Report to provide the additional gross volume data.

In September 2010, Ofgem formally launched its independent review of transmission charging and associated connection arrangements (Project TransmiT) and published an open letter call for evidence[9] seeking the views of interested parties on the scope and priorities of Project TransmiT. One outcome of the announcement is that NGET placed work on GB ECM-23 on hold[10]. However, NGET did not withdraw P260 as it considered that, if approved and if broadly in line with the conclusions of the review of transmission charging arrangements, P260 or its alternative could still be implemented.

In October 2010, Ofgem published a further open letter consultation[11] seeking views on extending SLC C13 for a further two years so that the condition would expire on 31 March 2013. This would provide NGET with another two years in which to develop an enduring charging solution in accordance with this licence obligation.

The modification proposal

In June 2010, the proposer (NGET) raised modification P260. The proposal seeks to amend the BSC to ensure that the data sent to NGET by the SVAA in the daily TUoS Report would also include gross allocated volume data for half hourly demand and generation for each Supplier BMU in every GSP Group, in addition to the net demand allocated volume data already provided.

The proposal seeks the provision of additional metered data in the TUoS Report splitting out the existing half hourly import data provided per Supplier BMU into three items: (i) net HH import, (ii) Gross HH export, and (iii) Gross HH import. These changes would allow NGET to automatically receive gross metered data for Supplier BMUs through the TUoS Report file received daily from the SVAA under the reporting arrangements set out in the BSC (Section V).

During assessment by the modification group, the original proposal was further developed so that gross allocated volume data for NHH demand and generation would also be provided. NGET indicated that it would not need the non half hourly gross data immediately but may need it in future. The modification group considered that including the NHH gross data in the proposed solution would future-proof the BSC against the need for a further modification.

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[7] SLC C13 currently requires that an enduring solution for the charging of transmission-connected embedded generators is implemented on 1 April 2011.
[8] The TUoS Report is a category of data referred to in Table 7 (SVAA Reporting) in Annex V-1 of the BSC.
[9] The call for evidence appears at: http://www.ofgem.gov.uk/Networks/Trans/PT/Pages/ProjectTransmiT.aspx.
[10] NGET's letter (Interim Approach to Charging Modifications) appears at: http://www.nationalgrid.com/NR/rdonlyres/44201E6D-B4A1-4D94-BF50-342350ED3D69/43170/IndustryLetter_final_review.pdf.
[11] The consultation appears at: http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=134&refer=Networks/Trans/ElecTransPolicy/Charging.

During assessment, an alternative proposal was also developed to allow a wider range of parties to access the data provided to NGET in the TUoS Report. The alternative solution would make the gross allocated volume data for HH and NHH demand and generation available to any interested party as a separate report. To address concerns that disaggregated data (by Supplier BMU) may breach the confidentiality of BSC parties, only aggregated data (GSP Group totals) would be published. The separate report would also be published daily but updated after 7 days with a newer version of the same report.

In the proposer's view, the original proposal would ensure that the availability of the additional data assisted it to develop TNUoS charges which are more "cost reflective". NGET also noted that P260 would help facilitate the development of an enduring solution to replace the "small generator discount" with cost reflective transmission charging arrangements prior to 31 March 2011. In the proposer's view, therefore, the original proposal would better meet BSC applicable objective (a) 'efficient discharge of the obligations of the Transmission Licence'. The modification group was split on whether the original proposal would better meet this objective.

In the proposer's view, the alternative proposal would also better meet applicable objective (c) 'promoting effective competition in the generation and supply of electricity'. The wider distribution of the additional data in the TUoS Report to interested parties in aggregated form would increase information transparency and assist market participants to understand developments in the market. Their use of this data would allow them to assist NGET in the efficient discharge of its licence obligations. The modification group unanimously supported the alternative regarding applicable objective (c) but only a minority of the group supported it regarding applicable objective (a). The group also unanimously considered that the alternative proposal would better meet the applicable objectives compared with the original proposal.

BSC Panel[12] recommendation

The BSC Panel considered the draft Final Modification Report (FMR) at its meeting on 14 October 2010. The Panel unanimously agreed that P260 should not be made and, by a majority, agreed that the P260 alternative should also not be made. The Panel considered that the launch of Project TransmiT superceded the reason why NGET wished to access the additional data, namely, the requirement to develop an enduring charging solution prior to the expiry of the existing arrangements in SLC C13. A majority of the Panel also considered that the additional information transparency benefits of the P260 alternative did not justify the additional implementation costs of the separate report. Further details of the Panel's views appear in the FMR.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the alternative as reflected in the FMR dated 19 October 2010. The Authority has considered and taken into account the responses to ELEXON's[13] consultation which are attached to the FMR[14]. The Authority has concluded that, having regard to its principal objective and statutory duties, that neither modification proposal P260 nor the P260 alternative would better facilitate the achievement of the Applicable Objectives of the BSC[15].

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[12] The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.
[13] The role and powers, functions and responsibilities of ELEXON are set out in Section C of the BSC.
[14] BSC modification proposals and modification reports can be viewed on the ELEXON website: www.elexon.co.uk
[15]The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

Reasons for the Authority's decision

We note the split in views amongst respondents to the Report phase consultation regarding the two solutions. We also note that NGET's view when the Assessment Report was presented in September 2010 was that there is still a defect in the BSC to address regarding the availability of the gross allocated volume data that would be required to develop an enduring solution before the expiry of the arrangements under SLC C13.

We note that while NGET's main argument for P260 was to support the development of an enduring transmission charging solution to the treatment of DG as envisaged through GB ECM-23, they also made the case that there are other benefits. In particular, NGET consider that the extra data provided through this proposal would potentially help it to better validate user demand forecasts and contribute to the general development of a more "cost reflective" TNUoS charging methodology in the future. We understand this to mean that the additional data will be used by NGET to develop a more robust process for estimating the level of forecast demand at the GSP group level and contribute more effectively to the validation of the relevant Triad periods upon which Demand TNUoS tariffs will be calculated[16]. Hence, while the additional information requested does not impact on the method used to derive Demand TNUoS tariffs, NGET considers that, it may improve the data validation process upon which an input element of the transport model is based, with the potential to more accurately set TNUoS tariffs to collect allowed revenue.

In principle, while the additional data may be useful in the context of delivering a potential improvement to the data validation process supporting an element of the current TNUoS charging setting process, in practice, we note that NGET has indicated that it cannot utilise this data in the charge setting process for the forthcoming year (i.e. April 2011). Instead, we understand the earliest that NGET could first utilise this data is in relation to the charge setting process in the following charging year (i.e. from 1 April 2012). With this in mind, we agree with the views of the Panel (and NGET in its Report phase consultation response) that the benefits of obtaining the additional data are difficult to quantify in relation to the TNUoS charging methodology and do not outweigh the costs of implementation.

Against this background, it is our view that until there is resolution of the wider charging work, it is not prudent to progress with a proposal that is designed to help put in place a new TNUoS charging methodology. This is because it is not guaranteed that the proposed changes will be required and may even be unnecessary if a different approach to use of system charging were to be developed and implemented. This approach has the additional benefit of also avoiding implementation cost, namely the estimated full implementation cost of around £100k, which may then subsequently be stranded.

BSC objective (a) 'efficient discharge of the obligations of the Transmission Licence'

We have already indicated in our October 2010 consultation letter that, while Project TransmiT is ongoing and until it reaches a conclusion, we would be minded to allow the SLC C13 arrangements to continue beyond 31 March 2011. With GB ECM-23 on hold, it would not assist NGET to efficiently discharge its licence obligations to obtain the additional data through the TUoS Report as it does not currently get this data to carry out its existing obligations under SLC C13 and would also not need this data immediately should SLC C13 be extended.

We note the views of a minority of Panel members in support of the original and alternative proposals that we should not make a decision on P260 until the conclusion of

[16] TNUoS tariffs are designed to recover the cumulative amount of all TOs' forecast costs incurred in building, operating and maintaining their transmission infrastructure assets (reflecting the correct allowed revenue costs of each transmission licensee).

Project TransmiT. We do not regard this as a feasible option as it would clearly be inefficient to leave this particular modification proposal open when there are known parallel developments ongoing which could supercede the proposed solutions. It would, in our view, be more efficient to make a decision now and for new modification proposals to be raised once the way forward on GB ECM-23 is known.

BSC objective (c) 'promoting effective competition in the generation and supply of electricity and in the sale and purchase of electricity'

We agree with the majority of Panel members and other respondents that the benefits of increased transparency of market data do not outweigh the implementation costs associated with the alternative solution. In our view, there are two reasons why this is not the case:

- the data which NGET has requested may not be needed should the SLC C13 arrangements be extended beyond 31 March 2011 and, in the absence of a way forward on GB ECM-23, it is not clear whether the data requested is actually the correct data needed to implement an enduring solution, and
- no strong argument was made as to why providing the requested data in a simplified separate report to all interested parties at a proposed overall cost of around £100k would provide a significant competition benefit to all parties, in particular to smaller parties

In our view, there is no strong case that real quantifiable competition benefits will arise from implementing the alternative solution and, therefore, that the alternative proposal does not better meet applicable objective (c).

Decision notice

For the reasons set out above, we have decided not to direct the implementation of P260: *'Extension to data provided to the Transmission Company in the TUoS Report'* or the alternative.

Mark Cox
Associate Partner – Smarter Grids and Governance
Signed on behalf of the Authority and authorised for that purpose