Stage 04: Final Modification Report

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

P242: Treatment of Exemptable Generation Connected to Embedded Transmission Networks

Currently, Offshore Exemptable Generators that connect onshore to a Distribution System are treated in the same way as onshore Exemptable Embedded Generators. However when the Offshore Transmission Arrangements 'Go-Live' in June 2010, Offshore Exemptable Generators will be treated in the same way as directly-connected Generators.

P242 proposes to give Offshore Exemptable Generators the option to be treated as Embedded.

The Panel recommends
Approval of P242

High Impact:
Generators, Licence Exemptable Generators and the Transmission Company

Medium Impact:
LDSOs

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About this document:

This document is a Final Modification Report, which ELEXON has submitted to the Authority on the Panel's behalf. The Authority will decide whether or not it agrees with the Panel's recommendation in the report, and will issue a decision letter to either approve or reject the change.

Attachment A provides further supporting details of the Modification Group's assessment of P242.

This document contains a summary of the industry responses to the Report Phase Consultation. You can download the full individual responses from ELEXON's website here.

Any questions?

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1 Summary

Why Change?

The Secretary of State has introduced Offshore Transmission Arrangements that will Go Live in June 2010. At Go Live, any 132 Kilovolt (kV) (or above) cable that connects an Offshore Exemptable Generator to a Distribution System will become a Transmission Asset owned and operated by the Offshore Transmission Operator (OFTO). With the OFTO owning the cables, Offshore Exemptable Generators can no longer be classed as Embedded Generators in a similar manner to Onshore Exemptable Embedded Generators.

The Proposer believes this change in status, as a result of the Offshore Transmission Arrangements, give rise to undue discrimination against Offshore Exemptable Generators and future developments. After Go Live, Offshore Exemptable Generators will be classed as being Transmission Connected Generators, becoming liable for Transmission charges while still being liable for Distribution charges. This causes the undue discrimination when compared against existing Onshore Exemptable Generators, who are only liable for Distribution charges.

Solution

To enable Offshore Exemptable Generators, which after Go Live connect to Embedded Transmission, to retain the ability to be treated as Embedded Generators, P242 proposes to:

- create a **deemed Onshore Boundary Point** to enable the Offshore Generator to be:
  - treated as an **Embedded Generator**;
  - responsible for the **Metering** at the deemed Boundary Point; and
  - responsible for the **Transmission Losses** on the Embedded Transmission they use.
- allow both CMRS and SMRS Registration through the creation of a new **Embedded Transmission BM Unit** configuration; and
- limit Offshore Exemptable Embedded Generation to Generators connecting to a Distribution System via Embedded Transmission that is only used by them ('Sole Use').

Related Changes

The Proposer of P242 is also seeking to progress related changes to National Grid's Charging Methodology and may also be seeking changes to the Grid Code (GC), Connection and Use of System Code (CUSC). These changes are being progressed to clarify issues relating to P242. However, P242 is not contingent on them and should be considered on its own merits.

Impacts & Costs

P242 will require changes to Section K to effect the solution of creating a deemed Boundary Point and a new Embedded Transmission BM Unit configuration. It will also require a new Defined Term to be added to Annex X-1. A small change is also needed to BSCP15 to include the new Embedded Transmission BM Unit configuration option in the BM Unit registration process.

As there are no system changes caused by the P242 Proposed solution the estimated ELEXON implementation cost is £1,200 which equates to 5 Man Days of ELEXON effort.

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The P242 solution will have no further impact on the Transmission Company, above the activities they will be carrying out in preparation for the Offshore Transmission Arrangements going live.

Implementation

If approved, the Panel recommends that P242 be implemented on:

- **19 February 2010** if an Authority decision is made **on or before 12 February 2010**; or
- **5 Working Days** following an Authority decision if made **after 12 February 2010**.

The Case for Change

The Panel's unanimous view is that P242 will better facilitate **Applicable BSC Objective (c) for the following reasons:**

- promote competition by removing an existing undue discrimination; and
- removes double charging of distribution and transmission charges.

The Transmission Company was neutral and a majority of respondents to the Group's consultation agreed with this view.

Recommendations

The Panel therefore unanimously recommends that the P242 Proposed Change should be made.

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2 Why Change?

Why has P242 been raised?

Change in Status from treatment as an Offshore Exemptable Embedded to a Transmission Connected Generator

When the new Offshore Transmission Arrangements (as introduced by the Secretary of State) 'Go Live' in June 2010. Offshore Exemptable Generators that connect directly to a Distribution System via cables rated at 132kV or above will stop being treated as an Embedded Exemptable Generators. Instead they will be considered as Transmission Connected Generators.

The reason for the change in status is that under the new arrangements the 132kV cable (and potentially part of the Offshore substation) connecting the Offshore Exemptable Generator to the Distribution System will be operated by the Offshore Transmission Operator (OFTO) and become part of the Transmission System. The change in classification of the assets will mean the Offshore Generator will be classed as being a Transmission Connected Generator. The Transmission Assets in this situation can be described as 'Embedded Transmission'.

Once the Offshore Exemptable Generator is classed as being a Transmission Connected Generator, they will become liable for transmission charges while still being liable for Distribution Use of System (DUoS) charges. This gives rise to undue discrimination as they will be liable for transmission charges and DUoS charges rather than just the DUoS charges that a comparable Onshore Embedded Generator would be liable for.

Movement of the Boundary Point Offshore

Due to the 132kV cable being part of the Transmission System the Boundary Point will move. Before Go Live the Boundary point is where the Offshore Generator's Assets (the 132kV cable) connects to the onshore Distribution System, which enables it to be treated as Embedded and to get 'Embedded Benefits'. After Go Live the Boundary point will be where the Offshore Generator connects to the Offshore Transmission Assets (i.e. the Offshore end of the 132kV cable). The movement of the Boundary Point Offshore creates a barrier to the Offshore Exemptable Generator being able to be treated as Embedded, as a Generator needs to connect to a Distribution System directly.

The Generator will be responsible for installing and registering the metering at the Offshore Boundary Point. The meter and the registration of the metering at the Offshore Transmission Connection Point will be the responsibility of National Grid.

With the shift of the Boundary Point Offshore and the change in status to a Transmission Connected Generator after Go Live, the Offshore Exemptable Generators will have to register their metering at the Boundary point via the Central Meter Registration Service (CMRS). This is in contrast to Onshore Exemptable Embedded Generators which have the option to register in either CMRS or in the Supplier Meter Registration Service (SMRS).

What does all this mean?

The change in classification of the offshore assets to Embedded Transmission and the movement of the Boundary Point Offshore means that an Offshore Exemptable Generator that, before Go Live, could be treated as an Embedded Generator can no longer do so. Furthermore the Offshore Exemptable Generator will be liable for all transmission charges, including socialised Losses to which they were not previously exposed. Additionally, before Go Live the Generator's Losses will be directly attributed to them and not socialised (i.e.

What is an Exemptable Generator?

An Exemptable Generator is a licence Exempt Generator as they typically generate less than 100MW

What is Embedded Transmission?

Offshore Transmission Assets that connect Onshore to a Distribution System

What is a Boundary Point?

A Boundary Point is where a Generator connects to the Total System (which consists of the Transmission System or Distribution Systems).

What are 'Embedded Benefits'?

Embedded Benefits are savings incurred y the Exemptable Generator, as they are not liable for some of the charges that Transmission Connected Generators are. This is due to them making little or no use of the Transmission System

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will effectively be a cost borne directly by the generator concerned). After Go Live these losses will form part of the socialised costs to be recovered across all participants The change in treatment of these losses and transmission charges at Go Live gives rise to undue discrimination against the Offshore Exemptable Generator as the only difference between the Onshore and Offshore equivalents is the presence of the Embedded Transmission.

The above issues have an immediate effect on current Offshore Exemptable Generators going through transition to the new Offshore Transmission Arrangements. However they may also affect future decisions made by Parties about how new builds of Offshore Generation are connected, as the current proposed regime is likely to cause them to request a full extension of the onshore Transmission System to the shoreline, even if connection to the nearest Distribution System is the most efficient solution.

Attachment A (Section 1) provides further details on the Background of the Modification and further information on Embedded Generation.

What is an Offshore Transmission Connection Point?

Is a Systems Connection Point at which the Offshore Transmission System connects to a Distribution System.

3 Solution

How will P242 resolve the issue?

P242 seeks to allow Offshore Exemptable Generators that are connected to, or are considering connecting to, a Distribution System via Embedded Transmission to have the option of being treated as an Embedded Generator. By doing this it would remove the inconsistencies in the treatment of Onshore Exemptable Generators and Offshore Exemptable Generators that will occur at Go-Live.

To achieve this, P242 proposes that Offshore Exemptable Generators that are connected to Embedded Transmission:

- are metered at the point where the Offshore Exemptable Generator connects to the Distribution system;
- are responsible for any Losses from the Embedded Transmission, and not spread across other market participants;
- qualify for embedded benefits;
- have a choice as to whether they register in SMRS or CMRS; and
- are the Registrant for the onshore metering as they are responsible for the Exports from the Generator.

What are the Changes that are required?

The key areas that require changes are:

- **Boundary Point** – the Boundary Point would be deemed to be onshore between the Generator and the Distribution System (this will allow an Offshore Exemptable Generator to be treated as Embedded);
- **'Sole Use'** – For an Offshore Exemptable Generator to be treated as Embedded the Embedded Transmission would have to be used by the one Generator. If another Generator wants to connect to those assets, the status of the original Generator will change and they would need to re-register as a Transmission Connected Generator;
- Allowing both **SMRS and CMRS registration** – to achieve the aims of the Modification (detailed above) and to match the pre Go Live options, the ability to register the metering in SMRS and CMRS would be included; and

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- **Losses** – By having the deemed Boundary Point placed onshore the Offshore Transmission Losses would be attributed directly to the Generator, while the Generator would not be liable for socialised Onshore Losses.

For the avoidance of doubt the P242 Proposed Solution will apply to both existing transitional Offshore Exemptable Generators and future Offshore developments. Further details of the solution are provided below:

Boundary Point

For the purpose of an Offshore Exemptable Generators that wants to be treated as an Offshore Exemptable Embedded Generator, the Boundary Point between the Generator and Total System (in this case the Distribution System) will be **deemed** to be Onshore at the Offshore Transmission Connection Point between the Embedded Transmission and Distribution System.

While the Boundary Point will be deemed to be Onshore for the purposes of the BSC, the physical connection between the Generator and Transmission System remains offshore. However, by deeming the Boundary Point to be Onshore the Transmission Assets will effectively be invisible thus allowing the Exemptable Offshore Generator to be treated as being Embedded and will ensure that the Offshore Exemptable Generator is fully responsible for the losses incurred on the Offshore assets.

The metering at the deemed Boundary point will still be under the ownership of the Transmission Company, but for the purposes of Settlement the Generator (if registered in CMRS) or Supplier (if registered in SMRS) will be the registrant and will therefore be responsible for the onshore metering.

Registration

Currently Embedded Exemptable Generators can register in both CMRS and SMRS. To retain this option, changes are needed to allow meter registration in both CMRS and SMRS. The process for both types of registration are set out below:

CMRS

A new option for registering a BM Unit will be added to identify that it is using Embedded Transmission. This would involve an extra option in the existing forms (in BSCP15) to include Embedded Transmission as a BM Unit Configuration. The Generator would need to prove that it has 'Sole Use' of the Embedded Transmission to qualify for this configuration.

Once the Generator is registered in CMRS as an Exempt Export BM Unit (Section K 3.2) it would then automatically join the Base Trading Unit as set out in Section K 4.7 and be classed as Embedded.

SMRS

To register in SMRS, the Offshore Exemptable Generator would agree a connection with the Distribution System through the Transmission Company and set up their metering in SMRS as set out in Section K 2.4.

The Supplier would be required to register an Additional Supplier BM Unit via BSCP15/4.1. This would provide the necessary indicators that the BM Unit is using Embedded Transmission, in the similar manner to CMRS registration.

The SMRS-registered Offshore Exemptable Generator would then be able to belong to the Base Trading Unit as set out in Section K 4.7 and be classed as Embedded.

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‘sole use’ or Increase in generation capacity

For an Offshore Exemptable Generator to be treated as Embedded, the Embedded Transmission connecting the Generator onshore would have to be used only by the one Generator (sole use). This is because of the requirement to separately meter different Party’s outputs to maintain the integrity of Settlement.

The situations where an Offshore Exemptable Generator, that elected to be treated as Embedded, can no longer be consider as Embedded are:

- where the Embedded Transmission that the Offshore Exemptable Generator uses to connect to the Distribution System stops being used solely by that Generator (i.e. another generator connects to the Embedded Transmission); or
- the Generator increases its generating capacity above the Exemptable limit (i.e. 100MW+) In these situations the Offshore Exemptable Generator is no longer exemptable and would need to re-register as a Transmission Connected Generator via CMRS.

These scenarios would result in the Transmission Company becoming the registrant of the Onshore metering at the Offshore Transmission Connection Point, with the Generator being the registrant of the metering at the Boundary Point Offshore between the Generator and Embedded Transmission.

What does the group mean by ‘sole use’?

In the context of the P242 and the code, it will mean one Generator/BM Unit connecting to and using one (Embedded Transmission) cable to the Onshore Distribution System

Losses

The Offshore Exemptable Generator will be automatically responsible for the losses along the Embedded Transmission. This is due to the Offshore Exemptable Generator being metered at the deemed Boundary Point Onshore where the Transmission Assets connects to the Distribution System.

Step by Step details on how CMRS and SMRS registration would work in relation to the P242 proposed solution can be found in Attachment A, Section 3.

Has the Group identified any Alternative Solutions?

No alternative Modifications have been developed as part of the P242 Assessment. The Group did discuss a potential alternative (prior to the Assessment Consultation) that the Group did not develop further.

Details and the Group’s discussions on why the alternative was not developed can be found in Attachment A, Section 3.

One Assessment Consultation respondent suggested an alternative solution. The Group discussed this alternative but did not develop it further. **Details of this Assessment Consultation alternative, the Group’s discussion and rationale for not developing it, is provided in Attachment A, Section 7.**

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4 Impacts & Costs

What are the likely impacts of P242?

ELEXON Cost		ELEXON Service Provider cost	**Total Cost**
Man day	Cost		
5.0	£1,200	£0	**£1,200**

Indicative industry costs
There are no costs to Industry or the Transmission Company to implement P242 as the changes are only administrative in nature.

Impacts

Impact on BSC Parties and Party Agents
Minimal as the changes are administrative in nature. However the existing generators affected by P242 will be affected: if a decision to approve is made after Go-Live, they would need to do a significant amount of changes in registration. In contrast, a decision before Go-Live will create little impact as the current pre Go-Live set up will remain.

Impact on Transmission Company
The Transmission Company indicated no impacts in relation to implementing P242 in addition to the activities they are already carrying in preparation of Go Live.

Impact on Code	
Code section	Potential impact
Section K1	• Allow a deemed Onshore Boundary Point for an 'Embedded Transmission BM Unit'. • Exclude Offshore Transmission Connection Point associated with Embedded Transmission BM Unit which shall operate as Boundary Points as a result of the new provisions concerning the deemed Boundary Point.
Section K2	• To remove any ambiguity around what will not apply to Metering Systems for a CMRS register Embedded Transmission BM Unit. • Create a provision that allows the optional registration of Metering Equipment in CMRS where the Metering Equipment measures quantities of Exports, or Exports and Imports from and embedded Exemptable Generating Plant.
Section K3	• Create a new BM Unit configuration 'Embedded Transmission BM Unit' as a category of BM Unit.

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	• Allow the Generator to register metering in CMRS or SMRS (with a provision that if registered in SMRS the Supplier must register an Additional BM Unit). • Make a provision that the Generator (CMRS) Supplier (SMRS) to be responsible for the metering at the deemed Boundary Point.
Annex X-1	Include a new definition of 'Embedded Transmission BM Unit'

Impact on Code Subsidiary Documents	
CSD	Potential impact
BSCP15	Small impact to amend form BSCP15/4.1 to include 'ET - Embedded Transmission' under BM Unit configuration footnote.

Group's discussion on the P242 Legal Text

Meaning of 'sole use' in the P242 Proposed Redlined Text

During the Group's discussion of the draft P242 legal text, the Group considered what 'sole use' means in relation to the P242 solution. The Group concluded that in the context of the P242 and the Code it will take the meaning of only one Generator/BM Unit connecting to and using Embedded Transmission to shore.

Only if a Generator meets the requirements of 'sole use' in relation to the other requirements can they be in a position to access any 'Embedded Benefits'. If they do not meet all the requirements including 'sole use' they cannot be treated as Embedded and instead will be treated and need to register as Transmission Connected.

The Group believed that Embedded status should be limited to 'sole use' situations to minimise any incentives for larger Parties to split an Offshore sites up into smaller Exemptable Sites to be treated as Embedded, and gain access to Embedded Benefits.

Details of the Groups discussion about 'sole use' can be found in Section 3, and discussions around incentives for larger sites to split up to be treated as Embedded can be found in Attachment A, Section 4.

Costs

The costs of implementing P242 are minimal, and involve 5.0 man days (£1,200[1]) of ELEXON effort to implement the BSC/BSCP15 changes and update Local Working Instructions (LWIs).

The Transmission Company indicated no impacts in relation to implementing P242 in addition to the activities they are already carrying in preparation of the Offshore Transmission Arrangements Go Live date.

[1] The average ELEXON day rate is £240 per Man Day, and is based on average implementation efforts from past BSC System Releases.

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Wider Impacts

As set out in the Modification Group's Terms of Reference the P242 Modification group had to consider the wider impacts of the Modification on other Codes and other industry work that is underway or will or commence in the future.

The group concluded that while there is other work occurring in relation to P242, the solution developed and the ability for the Authority to reach a decision on P242 is not contingent on the outcome of the other industry work. Therefore P242 should be considered on its own merits.

Details of the Group's discussion around the impacts on other Codes and Industry Work can be found in Attachment A, Section 4.

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5 Implementation

When will P242 be implemented?

The Panel recommends that P242 should be implemented on:

- **19 February 2010** if an Authority decision is made **on or before 12 February 2010**; or
- **5 Working Days** following an Authority decision if made **after 12 February 2010**.

Details of why the Panel recommeded these timescales are provided in Section 7

The Group's discussion on implementation timescales

The Group believes that there is nothing preventing a prompt implementation following an Authority decision on P242. The Group requests that a prompt decision is reached suitably **in advance** of the Offshore Transmission Arrangements going live in June 2010. This period of time in advance would be needed to allow any Parties affected by P242 to make any necessary changes to their Transition Plans for the Offshore Transmission Arrangements.

Changes to BSCP15

The changes to BSCP15 are minor and include adding the new Embedded Transmission BM Unit configuration option to the BM Unit registration form used by Parties. The Group considers that it is beneficial to deliver these changes in parallel with those to the BSC.

The Transmission Company and a majority of respondents to the Group's consultation support this approach and the Panel's proposed Implementation Date.

The Group developed the BSCP15 changes during the Modification Process, and the Panel approved these changes (Attachment C) alongside the BSC legal text (Attachment B).

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Cost Benefit Analysis

During the Assessment of P242 the Group carried out a Cost Analysis of the affect on Exemptable Generators Post Go-Live, showing the costs they would be liable for with or without P242.

The table below show a comparison of the total costs that the existing three Pre Go Live Onshore Exemptable Embedded Generators, as described in the P242 proposal; Barrow, Robin Rigg East and Robin Rigg West would be liable for after Go Live, compared to what they would be liable for if P242 was approved.

	Costs post Go Live (£)	
Generator Costs	**Baseline**	**P242**
BSUoS	959,037	0
RCRC	-87,215	0
Onshore Distribution Losses	0	-1,297,099.55
Onshore Transmission Losses	379,772	
Offshore Losses	1,539.90	1,337,216
Total	1,253,134	40,116
Supplier Costs	**Baseline**	**P242**
BSUoS	959,037	0
RCRC	-87,215	0
Onshore Transmission Losses	473,269	0
Offshore Losses	1,539.90	0
Total	1,346,631	0
Grand Total	**Baseline**	**P242**
	2,599,765	40,116
Average cost redistribtuion[2]		**853,216**

If P242 was approved and implemented, a Generator that chose the Offshore Embedded route would have £853,216 per year redistributed. They would only be paying the directly attributed Offshore Losses, and would get a credit for the Onshore Distribution losses. Without P242 they would be liable for the whole range of costs, in the form of BSUoS, RCRC, Onshore Transmission Losses and Offshore Transmission Losses.

Full details of the costs benefit analysis along with a detailed commentary on how the costs were calculated are provided in Attachment A Section 6.

[2] This figure is the average cost redistribution based on the total example redistribution, for Barrow, Robin Rigg East and Robin Rigg West, of £2,599,765 minus the costs incurred under P242 divided by 3.

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Why will P242 be better than the existing BSC Requirements?

The Group's majority view is that P242 will better facilitate the achievements of **Applicable BSC Objective (a), (c)** and to a lesser extent **(b)**.

The table below sets out the final views raised by the Modification Group members, for and against each Applicable BSC Objective following the Assessment Consultation.

Applicable BSC Objective	Benefit(s)	Drawback(s)
Objective (a)	• Promotes efficient network design solutions. The current Baseline provides a disincentive for Offshore Generators to connect via Embedded Transmission even when this would be the most efficient solution.	• The Offshore Exemptable Generators will only be able to meter onshore in limited situations. Having different treatment may impact the Transmission Company's ability to discharge it duties efficiently. • The Transmission Company will not take into account 'Embedded Benefits' when deciding on the best place for a Generator to connect. • The Generator may apply pressure to get the connection they want in order to be treated as Embedded.
Objective (b)	• Ensures that there is no unnecessary economic impact on the Transmission System from the cost of retrofitting Offshore Metering. This impact would be, in part, from the required network outages to fit this metering. • Promotes Offshore renewable Generation by introducing an extra option for small generation, when new offshore sites are being developed. • It would prevent marginalising some offshore projects, as the DNO connection will be chosen if most efficient.	• Treating Offshore Generators differently may make the Operation of the Offshore Transmission system more difficult. • The retrofitting of any metering would be managed by the Transmission Company to minimise the impact.
Objective (c)	• Promote competition in generation by removing any undue discrimination between the onshore and offshore situation. • Ensures that the correct costs associated with the Embedded Transmission are targeted at the Offshore Exemptable	• Allowing different treatment of Transmission Connected generation may create further discrimination between Generators. • Licensable generators have to install and meter offshore at the Boundary Point, involving higher costs over metering onshore.

What are the Applicable BSC Objectives?

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

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

(c) Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity

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

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Applicable BSC Objective	Benefit(s)	Drawback(s)
	Generator. • Removes the double charging of transmission and distribution charging, by making the Offshore Exemptable Generator only liable for the Distribution charging and the costs of the offshore assets. • No reason for differential treatment between Onshore and Offshore post Go-Live when the Generator Set-Up is still essentially the same. • It will resolve regulatory uncertainty over the treatment of such situations	Have different treatment could have a negative impact on competition.
Objective (d)	• None identified	• Slight amount of added complexity to ELEXON processes.

The Analysis completed by the Transmission Company was neutral around the Applicable Objectives as the benefits the Group identified were limited in their application.

A majority of Assessment Consultation respondents supported the initial views of Modification Group that P242 does better facilitate the applicable objectives, particularly in relation to the issue of undue discrimination.

Further details on the Assessment Consultation responses and the Group's discussions are provided in Attachment A, Section 7.

Discrimination

One of the Modification Group's Terms of Reference was to consider whether there was undue discrimination arising from the Offshore Transmission Arrangements. The Group considered this discrimination issue in relation to the arguments for and against what P242 is trying to achieve.

The Group's provided arguments in relation to discrimination and whether this can be considered due discrimination with regard to:

- Offshore Embedded Transmission Exemptable Generators and Onshore Exemptable Embedded Generators;
- Offshore Embedded Transmission Exemptable Generators and Offshore Exemptable Transmission Connected Generators in Scotland (with 132kV connections); and
- Offshore Licensable Generators having to meter Offshore and Exemptable Generators and being able to meter Onshore under P242.

Full details of the views for and against P242 in relation to the question of discrimination and how each relates to the Applicable BSC Objectives is provided in Attachment A, Section 5

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Incentives/Disincentives to become Offshore Exemptable Embedded as a result of P242

During the Group's discussions of what P242 was trying to achieve, the Group discussed and considered whether P242 (if approved) would act as an inappropriate incentive for large Offshore Generators to try to be treated as Offshore Exemptable Embedded Generators.

Following the provision of some background information provided by the Proposer on where Offshore developments currently stand, the Group concluded that the likelihood of large Offshore Generators splitting their sites up and connecting them separately to Distribution Systems would be negligible. While a small incentive would exist for an Offshore Generator to develop their site in such a way as to meet the requirements established by P242, the practicalities and inconvenience of doing so significantly outweigh this incentive.

Full details of the Group's discussion on this subject is provided in Attachment A Section 4.

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7 Panel Initial Discussions

What were the Panel's initial views?

The panel considered the Group's Assessment Report at its meeting on 12 November 2009.

The Panel **unanimously** agreed with the majority of the Group and the majority of the Assessment Consultation respondents that:

- P242 will better facilitate the achievement of **Applicable BSC Objectives (c)**, for the following reasons:
  - It removes Undue Discrimination;
  - The correct costs associated with the Embedded Generators are targeted properly;
  - It removes the double charging of Distribution and Transmission Costs; and
  - It removes regulatory uncertainty over the treatment of Offshore Exemptable Generators after Go Live.
- The draft legal text and BSCP15 changes deliver the solution agreed by the Group and (subject to any industry comments received in the Report Phase consultation) are appropriate.

Panel's view on implementation approach

The Panel discussed the Groups's recommended implementation approach of 5 Working Days after an Authority decision. The Panel discussed whether a more specific timescale should be applied to the implementation approach in order to encourage a timely decision before the the Offshore Transmission Arrangements Go Live at the beginning of June.

The Panel agreed that for P242 that there should be a specific deadline with a fall–back date of 5 Working Days after an Authority decision so as to prevent changes being timed out. If the Authority approved P242 before Go Live, the changes would be implemented according to the implementation timescales recommended. The intention is that the changes would then 'Go Live' at the same time as the Offshore Transmission Arrangements in June 2010.

The Panels initial recommended implementation approach was:

- **19 February 2010** if an Authority decision is made **on or before 12 February 2010**; or
- **5 Working Days** following an Authority decision if made **after 12 February 2010**.

While the Panel does not want any decision period on P242 timing out, they were keen to understand the impact on Parties if P242 was implemented after the Offshore Transmission Arrangements Go Live in June 2010.

Panel's Views on the other Applicable BSC Objectives

The Panel unanimously agreed with the majority of the Group that P242 better facilitates Applicable BSC Objective (c). Some Panel members also supported the benefits that some of the Group identified against Objective (a) on the grounds that it would promote efficient network design. There was no support for the some of the Group's identified benefits in relation to Applicable BSC Objective (b).

What is the Panel's view?

The Panel unanimously agrees with the Group that P242 will better facilitate the achievement of Applicable BSC Objectives (c).

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Does the Panel have any additional views or comments?

Discrimination

The Panel discussed whether P242 dealt with resolving the undue discrimination between Onshore and Offshore Generators and whether the solution would create discrimination between Licensable and Exemptable Offshore Generators. The Panel agreed that the P242 solution resolved the undue discrimination between Onshore and Offshore Exemptable Generators by allowing the offshore Generators the option to be treated as Embedded after Go Live. The Panel believe that the P242 solution resolves the undue discrimination by treating the similar Onshore and Offshore situations the same.

Charging

A Panel member questioned whether Offshore Exemptable Generators should be liable for both Distribution Charges and Transmission Charges, as is the case at Go Live without P242, due to the use of the Embedded Transmission. Another Panel member responded by saying that under the P242 solution they would be responsible for the costs of using the Embedded Transmission that the Generator has 'sole use' of to shore. Under P242 they would not be liable for the wider costs associated with making use of an Offshore Transmission System (no 'sole use'), that in turn connects it to the Onshore Transmission System.

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8 Report Phase Consultation Responses

ELEXON consulted on the Panel's initial recommendations during the Report Phase.

The following table summarises the consultation responses which ELEXON received. You can download the full individual responses to this Report Phase Consultation, and to the Group's previous Assessment Consultation, here.

	Question	Responses
1	Do you agree that the Panel's recommended legal text and BSCP15 changes deliver the solution agreed by the Modification Group?	4 Yes – **Majority** 0 No 1 Other
2	The Panel has initially recommended an implementation approach of: • **19 February 2010** if an Authority decision is made **on or before 12 February 2010**; or • **5 Working Days** following an Authority decision if made **after 12 February 2010**. Do you agree with the Panel's recommended Implementation Date (for both the BSC and BSCP15 changes) of 5 Working Days after an Authority decision?	5 Yes – **Unanimous** 0 No
3	If P242 was implemented after the Offshore Transmission Arrangements Go Live in June 2010, what would the impact be on your organisation?	2 - Impacted 2 - No Impact 1 – Minor impact
4	Do you agree with the Panel's initial recommendation that: • P242 will better facilitate the achievement of Applicable BSC **Objectives (c)** when compared with the existing BSC requirements; and • P242 should therefore be **approved**?	4 Yes – **Majority** 0 No 1- other
5	Do you have any further comments on P242?	1 – Yes 4 – No

Did respondents support the Panel's recommendations?

A **majority** of Report Phase consultation respondents supported the Panel's initial recommendations and its views.

One respondent continues to question that 'Embedded Benefits', help to better achieve the Applicable BSC Objectives. This point is a re-iteration of what they raised in the Assessment Phase consultation and at the Modification Group meetings. The Modification Group's conclusion was that the P242 solution allows Offshore Exemptable Generators with 'sole use' of Embedded Transmission the option to be treated as Embedded after Go Live. This in turn allows them to access Embedded Benefits and if they were to change in the future it will not affect the solution that has been developed.

Respondents **did not** raise any new arguments in relation to the Modification proposal and the proposed solution developed.

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Legal Text

One respondent was unsure whether the propose Legal Text delivers the proposed solution to P242. They raised some points in their consultation response, which has resulted in some minor updates to provide further clarity. These consist of:

- Amending K2.1.2(b) so to replace 'from' with 'of', to reflect that flows can move in either direction from and to the Embedded Transmission BM Unit;
- Amending K3.3.2A, so that it is clear that any Embedded Transmission BM Unit register by a Supplier shall be registered as an Additional BM Unit, by adding. 'Notwithstanding paragraphs 3.3.1, any Embedded Transmission BM Unit registered by a Supplier shall be....';
- Adding a definition of 'Exemptable BM Unit' to Section X for the purpose of certainty; and
- Clarifying K3.1.4(h), so that it is clear that and Offshore Exemptable Generators can only be treated as Embedded if it only connects onshore to a distribution system, so that: "...Offshore Transmission System with the sole connection to onshore being to a Distribution System via an Offshore transmission Connection Point..."

The other points raised by the respondent were fully discussed by the Modification Group, who concluded that the draft legal text fully delivers the proposed solution. We contacted the respondent about their comments, and provided the necessary clarifications.

Decision Date

All respondents noted and supported the Panel's discussions around having a clear cut off date for a decision, and the need to ideally have a decision prior to the Offshore Transmission Arrangements going Live.

The Panel questioned what would be the impact on participants, if an Authority decision was not reached by the Go Live date. Of the 5 respondents, three indicated an impacted as they would need to either:

- arrange any necessary derogations in advance of Go Live to remain compliant will the BSC Boundary requirements; or
- register as Transmission Connected Generator, then re-register as Embedded, if P242 was approved and implemented after Go Live.

These impacts would be avoided if a timely decision is reached suitably in advance of Go Live.

Gunfleet Sands

As part of the Assessment Phase consultation, a respondent suggested an alternative to remove the 'sole use' requirement. So that sites including Gunfleet Sands, could be included in the solution. The Group concluded that this alternative was out of scope, however the respondent continued to support the proposed solution. Further details are in Attachment A, section 7.

We contacted the respondent during the Report Phase consultation and they re-iterated their continuing support for P242 Proposed Solution. They indicated that if they wanted the alternative to be taken forward, they will raise a separate Modification at an appropriate time.

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9 Panel's Final Views and Recommendations

What are the Panel's final views?

The panel has considered the Report Phase Consultation responses and the Draft Modification Report at its meeting on 10 December 2009.

Two Panel members raised the following queries:

Amending Statutory Changes

A Panel member queried a concern raised by the Panel when the Initial Written Assessment (IWA) was presented on 13 August 2009 and how the Modification group had addressed it. The concern related to the extent to which the Modification addressed statutory changes to the Offshore Transmission Arrangements that were introduced by the Department of Environment and Climate Change (DECC).

ELEXON explained that this action had been discharged through discussions with the Authority, who had indicated that the Modification would be considered on its own merits and any decision would be based on the Modification Report, industry consultation responses, whether the Modification improves the current baseline and whether the Modification better facilitates the Applicable BSC Objectives. How the Panel's concern was addressed is further detailed in **Attachment A, Section 1**.

Gunfleet Sands

A Panel member queried whether the Party who had suggested removing the 'sole use' requirement as an Alternative, to allow sites such as Gunfleet Sands to be treated as Embedded after Go Live, still intended to raise a separate Modification.

ELEXON explained that while the Party did not provide a formal response to the Report Phase consultation, we contacted them separately. They indicated that they continue to support P242 and the changes that it would introduce. They also indicated that they were still considering whether to raise the separate Modification, but if they did they would raise it at an appropriate time.

Apart from the two queries above, the Panel:

- noted that there were no new arguments from the Report Phase respondents;
- noted and agreed the minor clarification updates that were needed to the proposed P242 legal text to mitigate comments raised by a Report Phase respondent; and
- continues to unanimously support P242 and the proposed implementation approach.

The Panel therefore recommends to the Authority:

- that P242 should be made;
- an Implementation date of:
  - **19 February 2010** if an Authority decision is made **on or before 12 February 2010**; or
  - **5 Working Days** following an Authority decision if made **after 12 February 2010**.
- the BSC legal text contained in Attachment B; and
- the redlined changes to BSCP15 contained in Attachment C.

Recommendation

The Panel's unanimous recommendation is that P242 should be approved.

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10 Further Information

More information is available in:

Attachment A: Detailed Assessment

See this attachment for further supporting for further supporting details of the Group's assessment of P242, including:

- Background on the Offshore Transmission Arrangements and P242;
- The Modification Groups Terms of Reference and how each has been completed;
- Modification Group discussions on the Proposed Solution, the suggested Alternative and Wider Impacts;
- Benefits and Drawbacks of the Proposal;
- Cost Analysis of exemptable generation with and without P242 Post Go Live;
- A summary of the industry responses to the Group's consultation;
- Process followed for P242; and
- Modification Group membership

Attachment B: BSC Legal Text

Attachment C: BSCP15 Changes

See these attachments for copies of the Panel's recommended redlined changes to the BSC and BSCP15.

You can download further P242 documents here, including:

- the Transmission Company's impact assessment; and
- the full industry responses to the Assessment Consultation and Report Phase Consultation.

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