

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

P270: The Application of Line Loss Factors to GSPs that are not Transmission-interconnected

The BSC does not permit application of a Line Loss Factor to a Grid Supply Point, including Offshore Transmission Connection Points, a GSP type introduced by the OFTO arrangements.

P270 proposes that distinction should be made between GSPs based on how they are interconnected with the Transmission System and LLFs should be applied to GSPs in specific circumstances.



The Panel recommends **Rejection** of P270 Proposed Modification



High Impact:
None



Medium Impact:
LDSOs, Transmission Company, CDCA



Low Impact:
Suppliers and embedded generators (via LLF and GSP Group Correction effects) all Parties (via Transmission Losses), ELEXON

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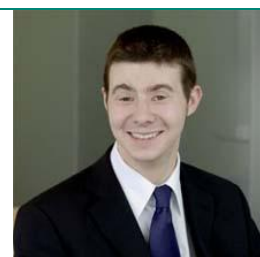
About this document:

This document is the final P270 Modification Report, sent to the Authority on 15 July 2011 on behalf of the Panel. The Authority will consider the Panel's recommendations and decide whether or not this change should be made.



Any questions?

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Why Change?

The BSC does not allow a Line Loss Factor (LLF) to be assigned to a Grid Supply Point (GSP). LLFs are assigned to Boundary Points Metering Systems to account for the losses considered to be caused, or relieved, on a Distribution System by a flow at that Boundary Point. A GSP connects a distribution system to the Transmission System and is not considered a user Boundary Point. P270 contends that LLFs should also be assigned to GSPs that connect electrically isolated elements of the Transmission System to a Distribution System.

P270 contends that under the current BSC baseline the flow to a Distribution System from an Offshore Transmission Connection Point will distort the cost reflectivity of losses allocated to other Distribution System users, and that the System Operator does not have visibility of the full impact of offshore networks that connect to a Distribution Systems upon the losses of that Distribution System.

Solution

P270 proposes that the BSC distinguish between GSPs based on the interconnection of the Transmission System to which they are connected and provide for LLFs to be assigned to appropriate GSPs. This would be accomplished by adding and amending BSC definitions. In effect, a volume of Distribution System losses (including where the connection relieves losses) would shift from the other Distribution System users into aggregated Transmission Losses.

Impacts & Costs

Beside the necessary Code changes, relatively minor supporting changes to several BSCPs would be required. P270 would have a minimal impact on ELEXON and the CDCA service provider and would not impact central systems. Affected LDSOs would need to amend their LLF methodologies and determine LLFs for Remote GSPs. Transmission System users would be impacted by the consequential effect on calculated Transmission Losses. No significant direct impact on BSC Parties' systems or processes has been identified.

Implementation

Ten working days after a decision is received from the Authority.

The Case for Change

P270 contends that remote GSPs differ from GSPs connected to the main, interconnected Transmission System (which flexibly supply electricity to meet the needs of the Distribution System), and are more similar to Distribution System users, because such isolated GSPs use the Distribution System as a means of dispersing electricity flowing from the remote network to which they are connected.

A key question is whether it is justifiable to shift the effect of Distribution System losses into Transmission Losses where they result from the operation of an electrically isolated Transmission System element. The Proposer argued it would promote cost reflectivity in the allocation of losses, but the majority of the group believed it was not appropriate.

The majority of respondents to the Report Phase Consultation agreed with the Panel's views, and there was unanimous support for the legal text and proposed Implementation Date. The draft BSCP changes were supported by all respondents who gave a view.

Recommendations

The Panel's unanimous final view was that P270 is neutral against Objectives (a), (b), and (d) and would have a negative impact against Objective (c). The Panel supported the views and arguments of the majority of the P270 Workgroup.

The Panel's unanimous recommendation is that P270 Proposed Modification should not be approved.

Applicable BSC Objectives	
a)	The efficient discharge by the licensee [i.e. the Transmission Company] of the obligations imposed upon it by the Transmission Licence
b)	The efficient, economic and co-ordinated operation of the national 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 and administration of the balancing and settlement arrangements

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2 Why Change?

A flow of electricity from a relatively isolated GSP (a Remote GSP for the purposes of P270) onto a Distribution System must physically have some Distribution System losses associated with it (i.e. some energy is lost in transmission from the point of connection to the Distribution System to other point(s) on the Distribution System). Additionally, flows can be considered to reduce losses when taken in the context of the configuration and operation of the Distribution System as a whole (e.g. where a flow offsets another flow that would have resulted in greater overall Distribution Losses). However, this is also true for 'conventional GSPs', i.e. GSPs connected to the main, interconnected Transmission System.

An issue for P270 is whether there is any justification for differentiating between GSPs based on how they are interconnected (or not) with the rest of the Transmission System, and then treating GSPs differently with regard to Distribution System losses by allowing LLFs to be applied to the metered flows of some GSPs. P270 also raises a question around which participants it is justifiable for the effects of Distribution System losses to fall upon. The main arguments for and against P270 are summarised below.

Argument for P270

A Line Loss Factor should be applied to a Remote GSP because it behaves differently to a 'conventional' GSP (i.e. one that is part of the main, interconnected Transmission System). A Remote GSP uses the Distribution System to distribute power produced by the generation to which it is connected without regard to the demand requirements of the Distribution System (it may be considered a customer of the Distribution System Operator). Conversely, a conventional GSP supplies power to the Distribution System in response to its demand, i.e. the Distribution System might be considered the Transmission System Operator's customer. If an LLF is not applied to a Remote GSP its effect on Distribution System losses must be shared in some way between some or all of the other connectees to the Distribution System, which P270 contends is not appropriate.

The LLF that should be applied to a Remote GSP should be determined by including it in the Distribution System Operator's LLF methodology and calculations in the same way as other elements of the Distribution System. The resultant LLF may be less than 1 (if the Remote GSP is determined to cause losses on the Distribution System) or greater than 1 (if the Remote GSP is determined to relieve losses on the Distribution System). This would reflect the arrangements in place prior to the introduction of OFTO arrangements.

Argument against P270

A Line Loss Factor should not be applied to a Remote GSP because LLFs are intended to adjust energy volumes within a Distribution System in order to apportion losses on the Distribution System to users of that Distribution System. Whilst it may be argued that a Remote GSP has an effect on Distribution System losses (in the same way as other connections to a Distribution System), energy from a 'conventional' GSP also physically affects losses, but it is currently accepted that it is not appropriate to apply an LLF to flows from a 'conventional' GSP. There is no justification to discriminate between 'conventional' GSPs and Remote GSPs in the manner proposed by P270.

Application of an LLF to a Remote GSP would result, via the consequent adjustment of the metered output of that GSP, in an impact on Transmission Losses. This impact would result in the cost effect (positive or negative) of Distribution System losses associated with a Remote GSP falling upon, and being shared between, connectees to the national Transmission System in line with existing BSC rules, which is inappropriate.

P270 proposes that the BSC should:

- Recognise that physical differences (specifically with regard to losses) exist between conventional onshore GSPs and types of GSPs that are differently connected to the Transmission System (i.e. whose connection is remote, such as Offshore Transmission Connection Points);
- Distinguish between GSP types based on the nature of the interconnection between the GSP and the Transmission System; and
- Make provision for the assignment of LLFs to particular types of GSP.

Applicability of P270

The particular issue identified by P270 relates to Offshore Transmission Connection Points, but the P270 solution would apply on the basis of the nature of the interconnection of the Transmission System to which the GSP is connected. This is intended to restrict P270 only to GSPs whose characteristics are considered to justify the use of LLFs.

This approach would allow future network developments to be treated appropriately by the P270 solution. For instance, if in future an offshore transmission interconnected grid is developed it would appear inappropriate for the GSPs involved to be treated differently to onshore GSPs since the offshore grid might act as a flexible energy source/sink in a similar way to an onshore GSP connected to the interconnected onshore Transmission System.

Retain the pre-OFTO status quo

P270 aims to retain the application of LLFs for Distribution System connections that are Offshore Transmission Connection Points that existed prior to them becoming Offshore Transmission Connection Points under the OFTO arrangements. This would reflect the fact that the change in classification does not change the physical losses arising on a Distribution System.

Impact of P270

P270 would assign LLFs to meters associated with remotely connected GSPs, such as Offshore Transmission Connection Points. This would effectively mean that Distribution System losses attributed to the Offshore Transmission System connection would be taken into consideration in determining GSP Group Take, and would have a corresponding opposite effect on calculated Transmission Losses. For example, a 1MW loss allocated to a Remote GSP's flow into a Distribution System would reduce GSP Group Take (where inflow is considered positive) by 1MW and increase Transmission Losses by 1MW. The relevant loss would be shared among all users of the Transmission System, as with other Transmission Losses.

Before introduction of the OFTO arrangements, sites affected by P270 may have been registered in SVA, with their generation affecting GSP Group Take only indirectly. Under the OFTO arrangements the flow from the offshore network is measured in CVA and therefore contributes directly to GSP Group Take as an Import to the Distribution System.

Note that P270 aims to assign an LLF to the Offshore Transmission Connection Point, not to Offshore Generators themselves.

An illustrative example of the application of the P270 solution and an explanation of the P270 Proposed legal text are set out in Attachment A. Proposed supporting changes to several BSCPs are also included (Attachments C, D and E).

4 Impacts & Costs

The changes to the BSC required to implement P270 are set out in Attachment B, and an explanation of the drafting is included in Attachment A. As well as amendment of Code, supporting changes would be made to several BSC Procedures (BSCPs 25, 75, and 128) to reflect the allocation of LLFs to Remote GSPs and ensure processes are documented clearly and consistently.

ELEXON would also update its procedures and guidance to reflect the P270 solution. We estimate that changing document and staff training would take 8 Man Days, with an associated cost of approximately £1920.

No amendment to central systems is needed for P270. The CDCA service provider would need to update process documentation, but the only practical impact is the application of the relevant aggregation rules. The service provider has estimated a cost of up to £1000 for the necessary activities but this would be expected to fall under 'business as usual'.

The only direct impacts of P270 implementation are on LDSOs with connections on their networks that would be considered Remote GSPs under P270. Such LDSOs would need to update their LLF methodologies and calculate LLFs for remote GSPs. National Grid and BSC Parties (as Transmission System users) would be impacted by LLFs being assigned to Remote GSPs though the consequential effect on Transmission Losses. All activities arising from these activities would fall under 'business as usual', and as such have no associated cost or lead time for P270 implementation.

5 Implementation

The group considered implementing P270 using an approach where the Code changes would be made five working days after an Authority decision, with the supporting BSC changes made in the next suitable BSC Release. The aim of this approach was to limit the impact of the P270 issue on LDSOs by enabling LLFs to be calculated for Remote GSPs and applied as soon as possible.

They did not identify any practical problems with this approach, particularly given that only two LDSOs would be immediately impacted by P270, and the most significantly impacted site is Robin Rigg, for which an LLF already exists (owing to its operation before the OFTO arrangements were applied to it). However, the group agreed that in principle all changes to the BSC and to Code Subsidiary Documents should be made simultaneously wherever possible.

Since the supporting BSCP changes are relatively minor the group agreed that ELEXON should draft the changes for inclusion in the P270 Report Phase industry consultation, to enable their implementation with the P270 Code changes in the event that P270 is approved.

The group therefore recommends that the Implementation Date of P270 should be ten working days after a decision is received from the Authority. All Code and BSCP changes would be made on the Implementation Date.

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Workgroup's final views against the BSC Objectives

The final majority view of the group was that overall P270 Proposed **would not** better facilitate the Applicable BSC Objectives compared with the existing Code baseline. The majority of the group (five) believed P270 would not improve on the baseline. Two group members believed P270 would be better overall than the current baseline.

The views of the group are summarised below. Not all members whose views aligned on the overall effect on a particular Objective necessarily agreed with all the arguments put forward in relation to it.

Applicable BSC Objectives - pros and cons		
	Benefits	Disadvantages
(a)	One member - positive impact: The Transmission Company has greater visibility of losses arising in a GSP Group, potentially promoting efficient network design because losses can be taken into account when considering Distribution System or Transmission-only connection approach	Majority - neutral impact
(b)	Three members - positive impact: Minor/marginal efficiency benefit due to increased visibility of losses caused by non-interconnected Transmission	Three members - neutral impact One member - negative impact: Although overall actual losses would be the same, losses attributed to Transmission would increase, which in relation to Transmission System efficiency is not beneficial
(c)	One member - positive impact: Remove loss allocation distortions, resulting in appropriate and cost reflective signals, meaning: <ul style="list-style-type: none"> • Appropriate losses are used in calculating LLFs for other sites on a Distribution System • Losses impact of connection via Distribution System instead of direct connection to the Transmission System (via new transmission lines) is visible to the Transmission Company 	Majority - negative impact: <ul style="list-style-type: none"> • Effectively transfers cost of Distribution System losses to Transmission users, which penalises GB Transmission System users • Cost reflectivity might be increased but singling out some GSPs and not others is not justified, and the resultant discrimination ultimately has a negative effect on competition • Tries to solve a Distribution losses incentive problem under BSC Two members - neutral impact
(d)	One member - positive impact: Promotes efficiency and clarity in the administration of audit and approval of LLFs under the BSC	Majority - neutral impact One member - negative impact: Increases complexity of BSC by treating types of GSP differently

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Panel's consideration of Assessment Report

The Distribution System Operator Representative views do not count in the overall views of the Panel against the Applicable BSC Objectives. However, the Representative believed P270 would facilitate Objective (c) because it would be more appropriate for the impact of Remote GSPs on Distribution System losses to be spread across Transmission System users instead of being attributed to some or all users of the relevant Distribution System. They also believed that P270 would have a minor benefit against Objective (d).

A Panel member felt that the comment in the P270 Detailed Assessment that 'It was perceived that approval of P242 would have nullified a policy intent explicitly stated by Ofgem/BERR' (Attachment A, subsection 'ELEXON analysis') might give a misleading impression of the motives of the Proposer of P242 in raising that Modification.

A Panel member suggested that the underlying issue is defining whether particular losses are considered as Transmission or Distribution related, which is not a BSC issue. This member could see arguments both in favour and against P270, but ultimately felt that the issue it seeks to address is not a BSC issue. The member noted that Robin Rigg, the specific site that was the driver for raising P270, was built under a different regime (i.e. prior to the OFTO arrangements).

Another Panel member agreed, and believed that Robin Rigg would remain an anomaly since it is unlikely that significant further Distribution System-connected Offshore Transmission will be developed because the OFTO arrangements.

A Panel member questioned whether P270 could be said to improve the cost reflectivity of losses allocation given that it would result in losses being spread across all Transmission users, not attributed to a particular participant. Another member suggested this could be considered justifiable given that the Distribution System losses impact that would be spread amongst Transmission System users would arise from the operation of a Transmission System connection.

A Panel member believed that the issues relating to P270 were an area for LSDOs to pursue with Ofgem, and not a matter to be resolved under the BSC.

Panel's initial views

The unanimous initial view of the Panel was that P270 Proposed would not better facilitate the Applicable BSC Objectives overall compared with the current baseline.

All Panel members supported the views of the majority of the P270 Modification Group, as set out in section 6, above. Based on these views and the considerations detailed above the Panel unanimously believed that P270 Proposed would not better facilitate the Applicable BSC Objectives overall and that (compared with the existing baseline) the P270 Proposed solution would:

- Have a neutral impact on Applicable BSC Objective (a);
- Have a neutral impact on Applicable BSC Objective (b);
- Not better facilitate Applicable BSC Objective (c); and
- Have a neutral impact on Applicable BSC Objective (d).

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8 Report Phase Consultation Responses

Summary

The full responses to the P270 Report Phase Consultation are available on the [P270 page](#) of the ELEXON website. We received seven responses, as summarised in the table below. A slim majority of four respondents agreed with the Panel's initial view that P270 should be rejected. Three respondents believed P270 should be approved.

Summary of P266 Report Phase Consultation responses		
Question		Response
1.	Do you agree with the Panel's initial view that the Proposed Modification should be rejected?	Yes: 4 No: 3
2.	Do you agree that the legal text delivers the intention of P270?	Yes: 7 No: 0
3.	Do you agree with the proposed redlined changes to BSCPs 25, 75 and 128?	Yes: 5 No: 0 Other: 2
4.	Do you agree with the Panel's suggested Implementation Date?	Yes: 7 No: 0

Agree with rejection

Four respondents that believe P270 should be rejected agreed with the arguments put forward by the majority of the P270 Workgroup and supported by the Panel. Three of the four agreed P270 would have a negative impact with respect to Applicable BSC Objective (c) and a neutral impact on Objectives (a), (b) and (d).

One respondent, EDF Energy, also believed that P270 would have a negative impact in relation to Objectives (b) and (d). EDF Energy note that including some Distribution System losses in the System Operator incentive to reduce Transmission Losses would raise complex issues about the interaction between Transmission and Distribution System operation, which they believe are beyond the scope of P270, and do not believe P270 would better facilitate Objective (b). They also believe P270 would have a negative impact with respect to Objective (d) by adding complexity to the BSC arrangements.

Disagree with rejection

All three of the respondents that disagreed with the Panel's initial recommendation, and supported P270, operate as LDSOs. The response from UK Power Networks suggested that approval of P270 would resolve a conflict caused by the introduction of the OFTO arrangements.

The P270 Proposer, Electricity North West Limited (ENW), confirmed that its views remain the same as when it raised P270, i.e. that P270 would have a positive impact with respect to Applicable BSC Objectives (a) and (c), and argued against the case for rejecting P270.

ENW believed that two of the main arguments against P270 relate to Objective (c) (that P270 would transfer the impact of some Distribution System losses into Transmission Losses, penalising Transmission System users, and that it would not improve cost reflectivity because losses would be spread across Transmission System users, not attribute them to a particular participant) ignore that under the OFTO arrangements the Transmission Company itself is a Distribution System user (they are DCUSA signatories and liable for DUOS charges).

ENW believe it is appropriate that the Transmission Company should be allocated Distribution System losses caused by such connections, and argue that this would allow

consistent application of Objective (c) to all Distribution System users. ENW suggest that how the cost impact is then allocated to Transmission System users, is a separate matter and beyond the scope of P270. This view was shared by Western Power Distribution in its response.

ENW also argue that the materiality of the losses transferred from Distribution to Transmission under P270 is small compared with overall Transmission Losses, but without P270 the potential distortion of losses signals could be significant for individual Distribution Systems users. They believe this should be considered in relation to Objective (c).

Finally, ENW commented that it is hard to understand the view that the P270 issues are not a matter for resolution under the BSC, and that therefore LDSOs should pursue such issues with Ofgem, given that matters such as LDSOs' LLF calculation methodologies are within the scope of the BSC, and that arguments relating to P270 are relevant to Applicable BSC Objective (c). ENW felt it would be useful to understand Ofgem's view on this.

Legal Text and BSCP Changes

Respondents unanimously agreed the legal text to implement P270 in the BSC. All respondents that expressed a view on the BSCP changes drafted to support implementation of P270 supported the proposed drafting. Two respondents declined to give a view on the BSCP changes.

Implementation

Respondents unanimously supported the proposed P270 Implementation Date and approach.

Further comments

Three respondents had comments further to their answers to the P270 consultation questions. In support of P270, Western Power Distribution suggested it would facilitate calculation of more accurate LLFs by LDSOs, which would improve Settlement accuracy.

ScottishPower's response noted that in their opinion there is no real defect within the BSC. They believe that the principles currently set out in the BSC allow for the correct allocation of losses in a cost-reflective and appropriate way, and the issue experienced by the P270 Proposer is due to problems with the application of their Distribution LLF methodology and the losses incentives provided through Ofgem. ScottishPower suggest the incentives should be updated to take into account the OFTO arrangements. Which respect to the particular case that occasioned P270, ENW's LLF methodology should allow recalculation of the requisite LLFs to compensate for the impact of Robin Rigg. ScottishPower felt these problems are outside the scope of the BSC.

EDF Energy suggested that there might be instances where GSPs not intended to be Remote GSPs unintentionally fall into the category of 'Remote GSP', though they had not positively identified any. They noted P270 would create interaction between incentives on the Transmission Company and those applied to affected LDSOs, though they did not think this interaction would materially affect actual flows, losses or investment on the relevant networks. EDF Energy also noted that as well as the main impact of P270 on LDSOs, and consequent impact on the Transmission Company and Transmission System users, P270 would also impact users of an affected Distribution System via small changes to generic LLFs (and hence GSP Group Correction) and potential changes in site-specific LLFs.

The Panel considered the responses to the P270 Report Phase consultation and noted the majority support for its initial recommendation to reject P270. The Panel noted the split in respondents, consistent with the results of the P270 Assessment Procedure consultation, that LDSOs support P270 while non-LDSOs believe it should be rejected.

A Panel Member suggested that if P270 had intended that some Distribution System loss impacts should be targeted at the Transmission Company (as a Distribution user under the OFTO arrangements) this should have formed part of the scope of P270. The method of allocating of losses transferred into Transmission Losses is outside the scope of P270, but the Member believed the impact had to be taken into account.

Other Members agreed, stating that P270 would spread transferred Distribution System loss impacts across Transmission users in an arbitrary manner that would not place losses signals on a particular user. Shifting losses in this way would also affect National Grid's losses incentives. Panel Members considered that the issues relating to P270 are due to discrepancies caused by the OFTO arrangements, and making changes under the BSC would not address the underlying issues.

The Distribution System Operator Representative suggested that the P270 Workgroup could have considered other ways of allocating transferred loss impacts within Transmission Losses, for instance by targeting them at the Transmission Company, and urged the Authority to use its wider remit to take into account considerations beyond the BSC when making a decision on P270.

Panel's final views

The unanimous final view of the Panel was that P270 Proposed would not better facilitate the Applicable BSC Objectives overall compared with the current baseline.

All Panel members supported the views of the majority of the P270 Modification Group, as set out in section 6, above. Based on these views and the considerations detailed above the Panel unanimously believed that P270 Proposed would not better facilitate the Applicable BSC Objectives overall and that (compared with the existing baseline) the P270 Proposed solution would:

- Have a neutral impact on Applicable BSC Objective (a);
- Have a neutral impact on Applicable BSC Objective (b);
- Not better facilitate Applicable BSC Objective (c); and
- Have a neutral impact on Applicable BSC Objective (d).

10 Recommendations

Having considered the P270 Draft Modification Report, the BSC Panel recommends:

- That Proposed Modification P270 should not be made;
- An Implementation Date for Proposed Modification P270 of ten working days after an Authority decision is received; and
- The proposed text for modifying the Code, as set out in the Modification Report.

11 Further Information

More information is available in:

Attachment **A**: Detailed Assessment

Attachment **B**: Legal Text Proposed

Attachment **C**: BSCP25 Redlined Changes

Attachment **D**: BSCP75 Redlined Changes

Attachment **E**: BSCP128 Redlined Changes

All consultation and impact assessment responses received, the P270 Assessment Report and other P270 documentation are available from the [P270 page](#) of the ELEXON website.