

## 4.5. MP Form

<b>Modification Proposal – BSCP40/03</b>	MP No: P282 <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by originator)</i>	
Allow MVRNs from Production to Consumption or Vice Versa	
<b>Submission Date</b> <i>(mandatory by originator)</i>	
26 March 2012	
<b>Description of Proposed Modification</b> <i>(mandatory by originator)</i>	
<p>Metered Volume Reallocation Notifications (MVRNs) allow Lead Parties to allocate a percentage or fixed volume of a BM Unit's Credited Energy Volume into the corresponding Energy Account of another Trading Party, known as a Subsidiary Party. The Subsidiary Party then takes responsibility for the Trading Charges associated with those volumes, including any energy imbalance costs, effectively consolidating the volumes into its own physical position.</p> <p>The ability to reallocate volumes in this way is subject to an important restriction. The BSC currently requires that where the BM Unit is a Production BM Unit the reallocated energy must be transferred into the Production Energy Account of the Subsidiary Party; similarly where the BM Unit is a Consumption BM Unit the energy must be transferred into the Consumption Energy Account of the Subsidiary Party.</p> <p>This proposal seeks to remove this restriction so that energy can be transferred by the Lead Party from:</p> <ul style="list-style-type: none"> <li>• one of its own Production or Consumption BM Units to its own opposite Energy Account (i.e. energy from a Production BM Unit could be transferred to the Party's Consumption Account or vice versa); and</li> <li>• one of its own Production or Consumption BM Unit to either Trading Account (Consumption or Production) of the Subsidiary Party.</li> </ul>	
<b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by originator)</i>	
<p>The MVRN mechanism provides some flexibility to the trading arrangements. For example, generators could choose to avoid day-to-day participation in the central trading arrangements by issuing an MVRN with another Trading Party with an active Production account, who then takes on the responsibility for the associated energy volumes. The same facility is available to a Supplier, allowing them to transfer energy they supplied to the Consumption account of another Trading Party. These methods are regularly used by Parties with multiple Party IDs to consolidate all their generation or consumption volumes into a single Account, which makes it easier to balance their overall position.</p> <p>The current restriction prevents a Production BM Unit from transferring energy to the Consumption</p>	

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Energy Account of its Lead Party or of a Subsidiary Party, and vice versa. This limitation, in the Proposer's view, places an undue and inappropriate restriction on non-Big Six Parties and only increases the costs of the trading arrangements and complexity of compliance with the rules. It also creates significant inefficiencies in the trading arrangements as it prevents them netting their own position against that of a counter-party active on the other side of the market (although this is already an option available to embedded generation).

The restriction was initially introduced, it is understood, with a view to ensuring that large vertically integrated companies would not have a particular advantage in the wholesale market through a mechanism that could reduce their exposure to imbalance charges. It also seems to have been assumed that many independents would only be active on one side of the market, which has not proven to be the case. However, in practice the current rules are not an effective check, and vertically integrated companies have found solutions to minimise their imbalance exposure through, for instance, the use of Trading Units and by making volume reallocations.

This proposal seeks to address three particular defects:

- first, as already noted, the restrictions on MVRNs provides restrictions on some market participants, which prevents them from managing their risk in the most efficient way. Removing this restriction would create additional flexibility for Trading Parties and so facilitate competition (objective (c)). In particular it could provide more flexibility for smaller market participants to consolidate and manage their positions;
- second it would level the playing field relative to the position already enjoyed by embedded generation. By setting the P/C flag of their Exempt Export BM Unit to Consumption, embedded generators can already consolidate their volumes into the Trading Account of a Supplier – this modification would allow other Parties to achieve a similar result through MVRNs (again objective (c)); and
- thirdly, the modification would also act to reduce the complexity of the trading arrangements and the costs of complying with them (objective (d)) and in so doing would lower a potentially significant barrier to entering the market (objective (c)).

It is also relevant that reduction of the balancing costs for small and medium generators would make these more competitive on the off-take market. Consequently, these non-integrated market participants will be able to offer more competitive power purchase agreements (PPAs). This will not only ensure more competition in the PPA market, but will also lead to better conditions and terms for developers. This will support the UK to achieve the goals related to new, but in particular renewable, generation capacity.

The proposed solution would apply to all market participants. However, the Workgroup is invited to consider if there is merit in an alternate solution whereby players in excess of a certain level of annual production or consumption (for example 20TWh) would remain subject to the current limitations. In doing this, the current restrictions would be retained for large vertically integrated companies. However, as Ofgem is currently proposing to introduce mandatory auctioning for the Big Six, such a

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volume ceiling may not be necessary.	
<p><b>Impact on Code</b> <i>(optional by originator)</i></p> <p>This proposal would impact Section P of the Code. In particular, it would effectively remove Section P3.1.3(d), which states that the Energy Account of the Subsidiary Party must align with the P/C Status of the BM Unit. Appropriate drafting will be required to clarify this intent. Other sections of the Code may also need amending to realise this solution – these will be identified during Assessment.</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b> <i>(optional by originator)</i></p> <p>N/A</p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by originator)</i></p> <p>To be discussed with ELEXON.</p>	
<p><b>Impact on other Configurable Items</b> <i>(optional by originator)</i></p> <p>None initially identified, but impacts may be identified during Assessment.</p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by originator)</i></p> <p>We consider that the proposal has the following impact on the facilitating the achievement of the following applicable objectives:</p> <p>a) <i>efficient discharge by the licensee of the obligations imposed on it by the Act and by its licence</i></p> <p>Neutral impact</p> <p>b) <i>the efficient, economic and coordinated operation of the national electricity transmission system</i></p> <p>Neutral impact</p> <p>c) <i>the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity</i></p> <p>The modification would significantly facilitate this objective by providing additional flexibility for Parties to manage their imbalance exposure to their own circumstances and strategies. It would therefore enable them to reduce risk, which should increase competition and encourage new entrants.</p>	

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<p>It would also reduce the level of complexity in the trading arrangements and the costs of compliance, which help to create a barrier to entry. This reduction in complexity may have a particularly positive impact on new and smaller parties.</p>	
<p>d) <i>promoting efficiency in the implementation and administration of the balancing and settlement arrangements</i></p>	
<p>The modification would promote this objective by creating greater flexibility in the arrangements by removing an unnecessary restriction and helping Trading Parties better manage their own costs, including costs of compliance with the BSC.</p>	
<p>e) <i>compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency</i></p>	
<p>The P277<sup>1</sup> Workgroup considered that, when compared to other European Markets, GB is unusual in requiring separate Production and Consumption accounts. Therefore allowing Parties to make MVRN from Production to Consumption or vice versa may go some way towards harmonising arrangements with other European countries and facilitates the creation of a single European energy market.</p>	
<p><b>Is there a likely material environmental impact?</b> <i>(mandatory by originator)</i></p> <p>No</p>	
<p><b>Urgency Recommended: Yes/No</b> <i>(delete as appropriate) (optional by originator)</i></p> <p>No</p>	
<p><b>Justification for Urgency Recommendation</b> <i>(mandatory by originator if recommending progression as an Urgent Modification Proposal)</i></p> <p>N/A</p>	
<p><b>Self-Governance Recommended: Yes/ No</b> <i>(delete as appropriate) (mandatory by originator)</i></p> <p>No</p>	
<p><b>Justification for Self-Governance Recommendation</b> <i>(mandatory by originator if recommending progression as Self-Governance Modification Proposal)</i></p> <p>N/A</p>	

<sup>1</sup> P277 ‘Allow Interconnector BM Units to choose their P/C Status’

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<p><b>Should this Modification Proposal be considered exempt from any ongoing Significant Code Reviews?</b> <i>(mandatory by originator in order to assist the Panel decide whether a Modification Proposal should undergo a SCR Suitability Assessment)</i></p> <p>Yes</p>	
<p><b>Details of Proposer:</b></p> <p><i>Name:</i> Magne Borgund</p> <p><i>Organisation:</i> Statkraft</p> <p><i>Telephone Number:</i> 0049 211 60244 4325</p> <p><i>Email Address:</i> <a href="mailto:magne.borgund@statkraft.de">magne.borgund@statkraft.de</a></p>	
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<p><b>Attachments: Yes/No</b> <i>(delete as appropriate) (mandatory by originator)</i></p> <p>No</p>	