

## 4.5. MP Form

<b>Modification Proposal – BSCP40/03</b>	MP No: P285 <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by originator)</i>	
Revised treatment of RCRC for Interconnector BM Units	
<b>Submission Date</b> <i>(mandatory by originator)</i>	
25 <sup>th</sup> May 2012	
<b>Description of Proposed Modification</b> <i>(mandatory by originator)</i>	
<p>The current BSC arrangements calculate the Total System Residual Cashflow (TRC) as being the sum of all energy imbalance charges across all parties and accounts. This represents the surplus or deficit of monies after the settlement of Energy Imbalances, the Balancing Mechanism and the System Operator (SO) BM Charge. Any residual money is redistributed across all BSC Parties via the Residual Cashflow Reallocation Cashflow (RCRC).</p> <p>BSC Parties are also liable for the costs incurred by the System Operator in balancing the transmission system. These costs are distributed across BSC Parties via the Balancing Services Use of System (BSUoS) charge. Currently, all BSC Parties are equally exposed to RCRC and BSUoS.</p> <p>CUSC Modification Proposal (CMP) 202 has been raised which seeks to remove BSUoS charges from Interconnector BM Units. If approved, Interconnector BM Units would not contribute to the SO costs of balancing the transmission system through BSUoS, yet would still receive (or pay) RCRC for those Credited Energy Volumes.</p> <p>This Modification proposes to also exclude Interconnector BM Units from RCRC. To achieve this, the Credited Energy Volumes from Interconnector BM Units would be excluded from the calculation of each Party's Residual Cashflow Reallocation Proportion (RCRP). This will mean that Interconnector volumes would not be included in a Party's RCRP, and the share of the RCRC that would have been allocated to these Interconnector volumes will instead be reallocated across BSC Parties in proportion with their non-Interconnector Credited Energy Volumes.</p>	
<b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by originator)</i>	
<p>Parties that do not contractually cover their generation or demand requirements within the BSC are subject to the imbalance charging arrangements.</p> <p>The net cost of the balancing actions taken by the System Operator (SO) to remedy imbalances is recovered from all participants via BSUoS along with other non energy related costs. The net cost of these balancing actions is passed (or charged) to the Balancing Mechanism.</p> <p>The net costs arising from imbalance charges are refunded to or recovered from all BSC Parties for each of their Energy Accounts via RCRC. Parties are therefore equally exposed to BSUoS and RCRC,</p>	

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<p>both being determined from BM Unit Credited Energy Volumes.</p> <p>CMP202 seeks to remove BSUoS charges from Interconnector BM Units. This was raised to remove a perceived barrier to cross-border trade and would also have the effect of further aligning the GB arrangements with those in other EU member states.</p> <p>If CMP202 is approved, this would result in a potentially anomalous situation whereby Interconnector BM Units would be liable to monies distributed (or collected) via RCRC resulting from imbalance charges, but would not contribute to the BSUoS charges resulting from the SO resolving these imbalances. This would give rise to the potential for windfall gains or losses for the relevant BSC Parties. Also, given that the calculation of RCRC can also result in a negative payment, RCRC may also be perceived as a disincentive to cross-border trade.</p>	
<p><b>Impact on Code</b> <i>(optional by originator)</i></p> <p>The calculation of RCRP and RCRC in Section T4.10 (Determination of Residual Cashflow Allocations) would be amended by this change.</p> <p>Other sections may also be impacted.</p>	
<p><b>Impact on Core Industry Documents or System Operator-Transmission Owner Code</b> <i>(optional by originator)</i></p> <p>None anticipated.</p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by originator)</i></p> <p>Changes will be required to BSC systems in order to apply RCRC account payments to only those accounts which are liable for BSUoS charges.</p>	
<p><b>Impact on other Configurable Items</b> <i>(optional by originator)</i></p> <p>None anticipated.</p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> <i>(mandatory by originator)</i></p> <p><b>(a) the efficient discharge by the licensee of the obligations imposed upon it by this licence</b> This proposal takes into consideration National Grid's obligations to take into account developments in its transmission business arising from European legislation and ensure that appropriate financial balancing and settlement (BSC) arrangements are in place.</p> <p><b>(c) promoting effective competition in the generation of supply of electricity</b> Aligning the RCRC beneficiaries with those that pay to resolve imbalance through BSUoS permits</p>	

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<p>trades across Interconnectors to be based on market price differentials, undistorted by any payments to, or charges on, those trades arising from RCRC. This would also prevent Interconnector Users from receiving windfall gains or losses that would arise from being subject to RCRC but not being subject to BSUoS.</p>	
<p><b>(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency</b>          Although RCRC is essentially a redistribution of monies arising from the imbalance arrangements, it can also be negative and thus result in a perceived charge on Parties trading across Interconnectors. It may therefore in those circumstances be viewed a contrary to EU 3<sup>rd</sup> package arrangements.</p>	
<p><b>Is there a likely material environmental impact?</b> <i>(mandatory by originator)</i></p> <p>None identified.</p>	
<p><b>Urgency Recommended: Yes / No</b> <i>(delete as appropriate) (optional by originator)</i></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><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>	
<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: As per Ofgem’s letter 7<sup>th</sup> July, BSC changes are not within the scope of the TransmiT SCR. Whilst RCRC is linked with Imbalance and cash-out pricing, RCRC is primarily a mechanism for redistributing funds resulting from the cash-out process and thus likely to remain irrespective of the outcome of any Significant Code Review.</p>	

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<b>Attachments: Yes / No</b> <i>(delete as appropriate) (mandatory by originator)</i>	
<b>If Yes, Title and No. of Pages of Each Attachment:</b>	
N/A	