

By email to energymarket@cma.gsi.gov.uk

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Dear Will,

Estimated implementation costs and timescales of past BSC Modification Proposals that sought to allocate transmission losses by location

My colleague, Kathryn Coffin, attended the CMA's round table held on 15 December 2015 to discuss the assessment methodology for the proposed losses remedy. At this meeting, we made the following observations (which were also included in our response¹ to the CMA's notice on the same topic):

- We noted that if the zonal losses solution used for the purposes of the cost-benefit analysis does not easily fit with existing BSC structures, and if the CMA mandates this specific solution for implementation, this could result in additional implementation costs and lead times.
- We also observed that mandating a specific zonal loss calculation could constrain a subsequent BSC Modification Workgroup's ability to re-assess the most cost-reflective temporal and zonal averaging for the loss factors. Conversely, leaving a subsequent BSC Modification Workgroup with flexibility to assess the most appropriate detailed calculation could result in a solution that differs from that used for the cost-benefit analysis.

The CMA recognised the work conducted under previous BSC Modifications including, most recently, Modification Proposal P229 'Introduction of a seasonal Zonal Transmission Losses scheme'². In light of our comments, the CMA invited ELEXON to provide insight into the cost and timescale implications of differing solutions based on the previous BSC Modifications which have contemplated losses.

Costs

The one-off ELEXON implementation costs of zonal transmission losses schemes based on a P229-type solution (i.e. with zones based on the BSC's existing GSP Groups, annual or seasonal zonal loss factors and an annual ex-ante calculation) have historically been estimated to be in the region of £115,000-£500,000, depending on the exact solution and the year the cost estimation was undertaken.

Previous BSC proposals that sought to increase the complexity of the scheme by making it more granular, ex-post and/or based on different zones had higher estimated one-off implementation costs of £1 million upwards (as estimated in 2002/03).

Some previous proposals also sought to include mechanisms to mitigate the impact on BSC Parties over a number of years. Of these, those that used a simple linear phasing over four years had minimal

¹ <https://www.elexon.co.uk/wp-content/uploads/2015/12/ELEXONs-comments-on-the-CMAs-losses-methodology-and-scenarios-v1-0.pdf>

² <https://www.elexon.co.uk/mod-proposal/p229-introduction-of-a-seasonal-zonal-transmission-losses-scheme/>

extra costs, while those that proposed more complex fifteen-year hedging or 'grandfathering' schemes had additional one-off costs of £400,000-£500,000.

Each proposal typically had on-going ELEXON operational costs estimated at £100,000-£200,000 per annum, depending on the solution.

All of these figures exclude any separate implementation costs for National Grid and BSC Parties.

Timescales

Typically, for past proposals, it took the BSC Panel the best part of a year to develop the solution and assess the costs and benefits. This excludes Ofgem's own timescales to make a decision on the Modification Proposal.

Each previous Modification Proposal had a minimum implementation timescale of 12 months from the point of Ofgem approval. Key implementation activities included procuring a new BSC service provider to calculate zonal loss factors, building the necessary enduring load-flow model, performing the first year's calculation and providing Parties with their requested minimum three-month's notice of the new zonal loss factor values. BSC Parties have previously expressed a preference for co-ordinating the implementation of any zonal losses scheme with their contract rounds, which take place on 1 April and 1 October each year.

Summary of key past BSC Modification Proposals

Type of solution	Key BSC Modifications	Modification variants
<ul style="list-style-type: none"> • Annual ex-ante calculation; and • Annual or seasonal loss factors; and • Zones based on GSP Groups 	P229 , P198 , P82	P204 , P203
<ul style="list-style-type: none"> • More granular calculation; • Differently-constituted zones; and/or • Ex-post calculation 	P75	P105
Included linear phasing	P198 Alternative	P82 Alternative , P75 Alternative
Included grandfathering/ hedging scheme	P200	P109

It is important that the CMA understands the implementation costs and time frame for introducing changes to the way losses are allocated. We recommend no implementation date is set without consulting first with industry and ELEXON to understand when system and process changes can be completed in light of a clearly defined solution.

We would be happy to discuss our observations and will continue to support the CMA. If you would like to discuss any aspect of these matters please contact me on 020 7380 4117 or by e-mail at adam.richardson@elexon.co.uk.

Yours sincerely,

Adam Richardson
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