

By email to: erika.lewis@cma.gsi.gov.uk

Erika Lewis
Project Director
Competition and Markets Authority
Victoria House
Southampton Row
London WC1B 4AD

25 July 2016

Dear Erika,

BSC Panel's discussion on Modification Proposal P350 'Introduction of a seasonal zonal transmission losses scheme'

I am writing to you as the Balancing and Settlement Code (BSC) Panel Chairman, on behalf of the BSC Panel, concerning the progression of this Modification Proposal.

National Grid has raised [P350](#) to implement, in the BSC, the Competition and Market Authority's (CMA's) remedy on locational transmission losses. In accordance with [BSC Section F 'Modification Procedures'](#), the BSC Panel must decide how to progress each new Modification Proposal. This includes setting the progression timetable and terms of reference for any Workgroup.¹ ELEXON prepares an Initial Written Assessment (IWA) to aid the Panel's determination.

The Panel considered ELEXON's [P350 IWA](#) at its meeting on 14 July 2016. Tony Curzon Price and Pietro Menis of the CMA attended this meeting as members of the audience, and Pietro kindly provided the Panel with some factual clarifications on the CMA's implementation process.

The Panel agreed with ELEXON that a Workgroup should assess P350 and deliver its report and recommendation to the Panel meeting on 12 January 2017. The BSC then requires the Panel to consult on its own initial recommendation, meaning that the Panel will deliver its own final report and recommendation to Ofgem shortly after the Panel meeting on 9 February 2017.

During its discussions, the Panel:

- Noted that the CMA's remedy, as worded in its [final report](#), requires a zonal transmission losses scheme based on Proposed Modification [P229](#) to be in place on 1 April 2018.
- Noted that P229, and other similar past Modifications, had an implementation lead time of 12 months from the point of Ofgem approval.
- Sought clarification on the nature of the mandate that the CMA's order will provide to National Grid, and how prescriptive this is (see more below).

¹ The role of a Workgroup is to consider whether a Modification Proposal better facilitates the achievement of the Applicable BSC Objectives when compared with the existing BSC rules.

- Agreed with ELEXON's recommendation that the P350 Workgroup should conduct load-flow modelling, to give BSC Parties an indication of the zonal loss factors that would apply to them in 2018 upon implementation of P350.
- Agreed with ELEXON's recommendation that the P350 Workgroup should conduct an up-to-date impact assessment of the BSC activities required to implement P350, and their impacts, costs and lead times.
- Disagreed with ELEXON's recommendation that the Panel should instruct the Workgroup not to conduct any further cost-benefit analysis to that already undertaken by the CMA, and agreed that it was important to allow the Workgroup to decide what analysis it considers necessary to support its recommendation to the Panel.
- Noted that the Panel would need to approve the Workgroup undertaking any further analysis that would increase the timetable or expenditure for P350's progression.
- Asked the Workgroup to consider any interaction between P350 and the treatment of transmission losses under the separate Contracts for Difference arrangements, which sit outside the BSC.

To support it in its work, the Panel is seeking any further comments from the CMA that would aid the progression of P350. The Panel noted that progression of P350 will run in parallel with the CMA's implementation process for the order and Transmission Licence changes. In particular, it queried:

- Whether there is potential for the wording of the order to deviate materially from the CMA's final report, for example during the CMA's consultation process on the draft order.
- Whether the order gives the P350 Workgroup flexibility to consider solutions that differ from Proposed Modification P229, noting that:
 - The P229 solution did not include High Voltage Direct Current (HVDC) transmission circuits, but the [Western HVDC Link](#) is due to be completed in 2017.²
 - P229 would have applied transmission losses to Interconnector Users, but [Modification P278](#) has since exempted such users from losses in order to comply with European legislation.
 - The CMA's remedy, as described in its final report, gives National Grid new powers of 'step in' (not part of P229) should ELEXON or its agent fail to calculate the required zonal loss factors.
 - Industry participants may believe there are more appropriate solutions to that set out in P229. For example, Panel Members commented on the potential to use zonal loss factors that are not seasonal, a different technical approach to calculating the loss factors and/or different input data such as weather data.

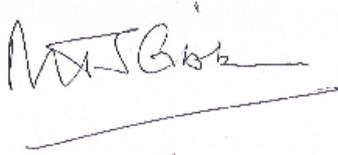
The Panel has asked ELEXON to provide it with a verbal update once the CMA publishes its draft order for consultation. I understand that the CMA is issuing this consultation to 'interested parties' only. I would therefore encourage the CMA to consider ELEXON an interested party in this regard, so that ELEXON can update the P350 Workgroup and the Panel accordingly.

² The Panel agreed with ELEXON that the P350 load-flow modelling should clarify the implications of using the P229 solution to model power flows on a Transmission System that includes HVDC circuits.

Please return any comments to the Panel Secretary, Victoria Moxham (PanelSecretary@elexon.co.uk).

If you have any questions on the content of this letter, please contact Kathryn Coffin (020 7380 4030 / kathryn.coffin@elexon.co.uk).

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. Gibbons". The signature is written in a cursive style and is underlined with a single horizontal line.

Michael Gibbons CBE FEI
Chairman, BSC Panel