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Purpose of Modification:
 This proposal seeks to modify the Balancing and Settlement Code (BSC) to remove Interconnector Balancing Mechanism (BM) Units Credited Energy Volumes from the BSC Charge calculations.

	This Modification will be presented by the Proposer to the BSC Panel on <i>9 November 2017</i> . The Panel will consider the Proposer’s recommendation and determine how best to progress the Modification.
	High Impact: BSC Parties with Interconnector BM Units ELEXON
	Medium Impact: All other BSC Parties with a non-zero Funding Share
	Low Impact: N/A

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Timetable		
The Proposer recommends the following timetable:		
Initial consideration by Workgroup	W/B 4 Dec 17	
Assessment Procedure Consultation	12 Mar to 30 Mar 18	
Workgroup Report presented to Panel	10 May 18	
Report Phase Consultation	14 May to 1 Jun 18	
Draft Modification Report presented to Panel	14 Jun 18	
Final Modification Report submitted to Authority	21 Jun 18	
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1 Summary

What is the issue?

Today the Interconnector Users in Great Britain (GB) are liable for the BSC Costs equivalent to the market share of the export and import registered on their Interconnector BM Units (BMU). The application of BSC Charges to cross-border flows creates a differential between those trades that facilitate competition within a national market and pan European trades that facilitate competition across a single European electricity market. Efficient trading between GB and other Member States is therefore compromised. In the BSC Interconnector flows are treated as production or consumption for the purposes of calculating BSC Charges. This is not in line with EU Third Package (EC 714/2009) Article 2 which defines an Interconnector as “a transmission line which crosses or spans a border between two Member States and connects transmission systems of Member States”.

What is the proposed solution?

ELEXON's costs and the contracted costs of BSC Agents are paid for by the BSC Parties. The amount each BSC Party pays for certain BSC Charges depends on the volume of energy they generate, supply or trade.

This Modification seeks to amend the BSC in order to remove Interconnector Balancing Mechanism (BM) Units Credited Energy Volumes from the BSC Charge calculations (especially the Production Charging Net SVA Cost and Net Main Costs). To have no charges levied on Interconnector Parties of Interconnector BMUs the Interconnector BMUs should not hence be included in the calculations of the Funding Shares and potentially other BSC Charges derived from volume shares.

2 Governance

Justification for proposed progression as not Self-Governance

This Modification proposal should **not be treated as Self Governance** on the basis that making changes to exempt Parties with Interconnector BMUs from the calculations of the Funding Shares might impact on competition in the generation, distribution, or supply of electricity, as well as potentially impact commercial activities connected with the generation, distribution, or supply of electricity.

Requested Next Steps

This Modification proposal should:

- Be assessed by a Workgroup and submitted into to the Assessment Procedure.

3 Why Change?

What is the issue?

Under the BSC, Interconnector Users (and Interconnector Error Administrators) are required to have a Production and a Consumption BMU for each Interconnector, to register the import and export of energy

from the GB market. The BSC Costs dependent on the share of the Credited Energy Volume (Net Main Cost and Production Charging Net SVA Cost particularly) are paid for by all BSC Parties having Production and Consumption BMUs with non-zero Metered Volumes. Hence all Parties having Interconnector BMUs are liable for their share of the above-mentioned costs.

Interconnector flows should not be seen as production nor consumption but part of the overall transmission infrastructure. Interconnectors are, in effect, defined in the EU Third Package Article 2 of Regulation 714/2009 as a transmission line which crosses or spans a border between two Member States and connects transmission systems of Member States. They are extensions to a Member State's transmission system which facilitate pan-European trade essential to supporting a single Europe-wide market in electricity.

This issue has resulted in modifications in other areas, such as a modification raised by NGET (CMP202) for the removal of BSUoS charges for Lead Parties of Interconnector BM Units, a BSC Modification P285 'Revised treatment of RCRC for Interconnector BM Units' and also P278 'Treatment of Transmission Losses for Interconnector Users' as another example,

The application of BSC Charges to cross-border flows creates a differential between those trades that facilitate competition within a national market and pan European trades that facilitate competition across a single European electricity market. This has the effect of reducing the number of occasions where potentially beneficial trades could have taken place and therefore potentially conflicts with the EU objectives.

Furthermore, the flow of energy across these Interconnectors is determined by a central algorithm which takes into account the local areas orderbook and the available Interconnector capacity between two bidding areas. The results of this calculation will determine the area price and direction of flow across the Interconnector. The BSC Costs of the GB Interconnectors cannot be included as a factor in the calculations. This means that in market coupling optimisations the shipping paths along Interconnectors connected to GB have add on costs which other European Interconnectors do not normally have. Hence the objective to ensure optimal use of the transmission infrastructure is not met.

This is not in line with the goals of the EU Third Package that aims to deliver a well-functioning internal market in electricity e.g. more cross-border trade, so as to achieve efficiency gains, competitive prices, and higher standards of service, and to contribute to security of supply and sustainability.

4 Code Specific Matters

Technical Skillsets

The Proposer believes that the following technical skillsets are required to assess this Modification:

- knowledge of the EU Third package, EU 714/2009
- Knowledge of BSC systems and processes, in particular BSC Interconnector rules and processes and knowledge of BSC Sections D, K, T and R.

Reference Documents

The Balance Settlement Code (BSC): <https://www.elexon.co.uk/bsc-and-codes/balancing-settlement-code/consolidated-bsc/>

5 Solution

Proposed Solution

This proposal aims to address the issues by removing the shares of BSC Costs to be covered by Parties of Interconnector BMUs and, in doing so, further align GB arrangements with EU objectives and facilitates greater use of Interconnectors, and encourage further cross-border trading.

Background

Interconnector Administrators, for example National Grid Interconnectors Ltd (NGIFA) for the French Interconnector, allocates Credited Energy Volume to the Interconnector Balancing Mechanism Units (Consumption and Production BMUs) based on the total Active Energy of their final Expected Transfer over Interconnectors. Under BSC Section D4.2 these BSC Parties must pay a share of the BSC Costs. The Costs based on their market share of Credited Energy Volume. The share of the Net Main Cost (allocated via a Main Funding Share) accounts for BM Units that produce and/or consume energy. The amount of Credited Energy Volumes (QCE) credited to a Party's account is calculated as a fraction of total QCE across all the accounts of that kind. This is done for both production and consumption accounts, and these combined give the Party's share of the Net Main Costs for that month.

The share Production Charging Net SVA Costs (BSC Party's SVA (Production) Share) accounts for BM Units that produce energy. The amount of QCE credited to a Party's account is calculated as a fraction of total QCE across all the production accounts. This gives the Party's share of the Production Charging Net SVA Costs for that month. The Calculations of the Funding Shares are described in BSC ANNEX D-1: FUNDING SHARES, including the two Funding Shares mentioned above.

Solution

The proposed solution is that any Party having registered Interconnector BM Units in relation to any Interconnector would no longer have the Interconnector BMUs included in the Funding Share calculations.

If the solution would mean a lengthy implementation time Nord Pool would expect a manual work around to be used before the system changes are in place. The Proposer would like to ask the Workgroup for an assessment on the need for changes to fixed BSC Costs incurred on Parties of Interconnector Units.

6 Impacts & Other Considerations

Impacts

This Modification will impact:

- Parties with Interconnector BMUs
- All BSC Party with a non-zero Funding Share
- ELEXON.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

We do not believe this Modification will impact the two open SCRs:

- [Electricity Settlement Reform](#)
- [Targeted Charging Review](#)

The Proposer requests that this Modification be exempt from the Significant Code Review process.

Consumer Impacts

No direct impact.

Environmental Impacts

None identified.

7 Relevant Objectives

Impact of the Modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence	Neutral
(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System	Neutral
(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	Positive
(d) Promoting efficiency in the implementation of the balancing and settlement arrangements	Positive
(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency [for the Co-operation of Energy Regulators]	Positive
(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation	Neutral
(g) Compliance with the Transmission Losses Principle	Neutral

Objective (c)

Objective (c) is impacted positively as the change promotes competition by lowering the barrier to Interconnector Users facilitating cross border trade (e.g. other NEMOs) to enter the UK market as no unforeseen and volatile BSC Costs for shipping flows is needed to be managed and accounted for.

Objective (d)

Objective (d) is impacted positively as the change would clarify the role of Interconnector Users as facilitating efficient cross border trade instead of being seen as any other producer and/or consumer being liable for BSC Costs. This would as well lower the barrier for Interconnector Users to enter the UK Market and implement the Balancing and Settlement arrangements.

Objective (e)

The Modification Proposal has a positive impact on the objective (e) as the Interconnector flows would neither be classed as production nor consumption but as part of the overall transmission infrastructure facilitating the wider market and hence aligned with the goals of the EU Third Package regulations.

8 Implementation Approach

The Proposer is seeking an implementation date no later than in November 2018.

If the solution would mean a lengthy implementation time Nord Pool would expect a manual work around to be used before the system changes are in place.

Due to the continuous risk of high BSC Costs for the party performing the shipping of Market Coupling flows we reserve the right to change the Modification to be an Urgent Modification.

9 Legal Text

The Proposer believes that appropriate legal text is best developed as part of the Assessment of this Modification.

However, it is anticipated that changes will be required in (but not limited to):

Section D and its annexes and potentially Section K paragraph 5, Section T paragraph 4, Section R paragraph 7.5.

10 Recommendations

Proposer's Recommendation to the BSC Panel

The BSC Panel is invited to:

- Agree that P361 not be progressed as a Self-Governance Modification
- Agree that P361 be submitted to an Assessment Procedure for assessment by a Workgroup.