

| BSC Modification Proposal Form | | At what stage is this document in the process? |
|---|---|--|
| <h1>P396</h1> <p>Mod Title: Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units</p> | | <div style="display: flex; flex-direction: column; align-items: flex-start;"> <div style="border: 1px solid green; background-color: #00a651; color: white; padding: 5px; margin-bottom: 5px;">01 Modification</div> <div style="border: 1px solid blue; padding: 5px; margin-bottom: 5px;">02 Workgroup Report</div> <div style="border: 1px solid purple; padding: 5px; margin-bottom: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid orange; padding: 5px;">04 Final Modification Report</div> </div> |
| <p>Purpose of Modification:</p> <p>This Modification seeks to exclude Interconnector Balancing Mechanism (BM) Units from the Main Funding Share and Supplier Volume Allocation (SVA) (Production) Funding Share Balancing and Settlement Code (BSC) Charges, in order to better facilitate the EU Third Package.</p> | | |
|  | <p>The Proposer recommends that this Modification should:</p> <ul style="list-style-type: none"> Not be treated as a Self-Governance Modification Proposal: and be sent directly into the Report Phase <p>This Modification will be presented by the Proposer to the BSC Panel on 12 December 2019. The Panel will consider the Proposer's recommendation and determine how best to progress the Modification.</p> | |
|  | <p>High Impact: Interconnector Users, Interconnector Error administrators, ELEXON, Generators, Suppliers and Non-Physical Traders.</p> | |
|  | <p>Medium Impact: N/A</p> | |
|  | <p>Low Impact: N/A</p> | |

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 **Any questions?**

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Timetable

The Proposer recommends the following timetable:

| | |
|---|--|
| Initial Written Assessment presented to the BSC Panel | 12 December 2019 |
| Report Phase Consultation | 16 December 2019 – 6 January 2020 (13WD) |
| Draft Modification Report presented to Panel | 16 January 2020 |
| Final Modification Report submitted to Authority | W/C 20 January 2020 |

1 Summary

Background

P396 has been raised to progress the solution previously developed under Modification [P361 'Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units'](#). Modification P361 was raised on 31 October 2017 and submitted for Authority decision on 13 July 2018.

On 22 October 2019, the Authority confirmed agreement with ELEXON's assessment that P361 has 'timed out'. The Authority was not in a position to make a determination on P361 by 1 November 2018 (the latest decision date, in order that P361 could be implemented by the Panel approved Implementation Date of 28 February 2019).

Therefore, P361 was closed as the Authority could no longer make a decision to approve or reject the Modification. The Authority assessed the merits of P361 and based on this initial assessment, it was minded-to approve the P361 Alternative Modification.

The Authority and ELEXON engaged with Nord Pool AS (P361 Proposer), who is raising this Modification to progress the solution developed under P361.

Further Information on the P361 proposal and solution can be found on the [P361 Modification Webpage](#) and documentation embedded within.

What is the issue?

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 Balancing Mechanism (BM) Units. 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 does not clearly best facilitate 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 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 BM Units Credited Energy Volumes from the BSC Charge calculations (Main funding Share and Supplier Volume Allocation (SVA) (Production) Funding Share. Upon implementation, the solution will calculate Parties Net Main Costs and Production-Charging SVA Costs using the revised Main Funding Share and SVA (Production) Funding Share respectively. The re-calculated charges will be billed as one lump sum, with payment due within normal BSC timescales following receipt of invoice.

The P396 reconciliation period will be the later of:

- The day following the Authority decision is issued to the National Electricity Transmission System Operator (NETSO); or
- The first day of the BSC Financial Year the Modification is implemented.

The proposed solution aligns with the intent of the original Modification P361 and will better facilitate EU legislation.

2 Governance

Justification for proposed progression as not Self-Governance

This Modification proposal **should not** be treated as Self Governance. The P361 Workgroup unanimously believed the solution does not meet the Self-Governance Criteria on the basis of criteria (a)i, (a)ii, a)v and (b), with their rationale as follows:

- (a)i: The Workgroup believed that due to the fact that if these charges were exempt from Interconnector BM Units and the associated costs spread amongst BSC Parties; these costs could potentially be reflected back onto the consumer.
- (a)ii: The Proposer believed the Modification will promote competition by lowering the barrier to Interconnector Users to enter the UK market. Conversely, some members felt that there was no clear impact on competition, although there may be increased competition between NEMOs.
- (a)v: The Modification is proposing a change to Section D, which sets out how the BSC administers its charging arrangements, this could be deemed as an alteration of the Code's governance procedures.
- (b): The Proposed Modification is potentially discriminating against other classes of Parties e.g. Generators and Suppliers, as charges excluded from Interconnector BM Units would be picked up by these parties.

Requested Next Steps

This Modification proposal should:

- Be sent directly to the Report Phase as the solution was previously developed by the P361 Workgroup. The Workgroup discussions and background to P361 can be found in the P361 Final Modification Report as published on the [P361 webpage](#).

Whilst the reconciliation period proposed under this P396 differs to that previously proposed under Modification P361, this does not constitute a material change to the intent behind the Modification. Therefore, further evaluation by a Workgroup is not required.

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 BM Unit 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 BM Units with non-zero Metered Volumes. Hence all Parties having Interconnector BM Units 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, for example:

- [CMP1202 'Revised treatment of BSUoS charges for lead parties of Interconnector BM Units'](#);
- [BSC Modification P285 'Revised treatment of RCRC for Interconnector BM Units'](#); and
- [P278 'Treatment of Transmission Losses for Interconnector Users'](#).

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 order-book 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 recommends this Modification be sent directly to the Report Phase for the reasons set out in section two of this proposal. However, should the BSC Panel determine P396 be sent to the Assessment Procedure for consideration by a Workgroup, the Proposer suggests the following technical skillsets are required:

- knowledge of the EU Third package, EU 714/2009; and
- Knowledge of BSC systems and processes, in particular BSC Interconnector rules and processes and knowledge of BSC Sections [D 'BSC Cost Recovery and Participation Charges'](#), [K](#)

[‘Classification and Registration of Metering Systems and BM Units’](#), [T ‘Settlement and Trading Charges’](#) and [R ‘Collection and Aggregation of Meter Data from CVA Metering Systems’](#).

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 BM Units and, in doing so, better facilitate GB arrangements with EU objectives and facilitates greater use of Interconnectors, and encourage further cross-border trading.

P396 proposes to exclude Interconnector BM Units Credited Energy Volumes from:

- Main Funding Share; and
- SVA (Production) Funding Share.

The solution requires a change to the SAA-I025 ‘SAA BSC Section D Charging Data’, which is used as an input file into the Funding Share System (FSS), used to calculate BSC Charges. The file, which is produced by the Settlement Administration Agent (SAA), will be amended to exclude Interconnector Credited Energy Volumes.

P396 does not amend the General Funding Share, Default Funding Share or Annual Funding Share, as any amendments to the Main funding Share or SVA (Production) Funding Share will flow into these other types of Funding Share.

The solution proposed under this P396 mirrors the solution previously developed under P361, except for the reconciliation date (the date to which the charges are backdated from the Implementation Date). The reconciliation date has been amended as part of this Modification to the later of:

- The day following the Authority decision is issued to the National Electricity Transmission System Operator; or
- The first day of the BSC Financial Year the Modification is implemented.

This is to ensure P396 delivers the intent of the P361 solution within a reasonable timeframe, and within in the financial year of which P396 is implemented.

Whilst the original P361 solution was due to be effective in the 2018/19 financial year, P396 seeks to be effective in the 2020/21 financial year. The Authority noted as part of its P361 assessment it was minded to approve the P361 Alternative Modification. The P361 Alternative Modification involved a reconciliation from the Implementation Date back to the day after the Authority’s decision.

ELEXON is unable to reconcile charges over different financial years as its funding model prevents it from retaining funds across financial years and its accounts need to reflect this. Due to the proposed timescales in which this P396 shall progress, the Authority should receive the Final Modification Report for decision week commencing January 2020, meaning an Authority decision is expected in the financial year before the financial year in which P396 shall be implemented. Consequently, the P396 solution contains provisions that ensure that the Implementation Date and the reconciliation date must fall in the same financial year.

In order to be as consistent as possible to P361, the P396 reconciliation date shall be the later of the day after the Authority decision (to mirror P361 Alternative Implementation Date), or 1 April 2020.

6 Impacts & Other Considerations

Impacts

This Modification will impact:

- Interconnector Users;
- Interconnector Error Administrators
- Generators
- Suppliers
- Non-Physical Traders; and
- ELEXON.

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

The Proposer does not believe this Modification will impact any ongoing SCRs and therefore requests this Modification be exempt from the SCR process.

Consumer Impacts

We do not anticipate there to be any direct impact on consumers resulting from the solution to this Modification.

Environmental Impacts

We do not anticipate there to be any direct impact on the environment resulting from the solution to this Modification.

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 | Neutral |
| (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 (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 better aligns to the goals of the EU Third Package regulations.

8 Implementation Approach

The Proposer is seeking an Implementation Date of:

- 5 November 2020 as part of the November 2020 BSC Release subject to an Authority decision being received by 1 April 2020; or
- 25 February 2021 as part of the February 2021 Release if an Authority decision is not received by 1 April 2020 but is received by 1 July 2020.

9 Legal Text

The Proposer believes the legal text developed by the P361 Workgroup remains suitable for this P396 except for the legal text relating to the reconciliation date. The legal text relating to the implementation date has been amended to ensure that charges cannot be reconciled between dates in different financial years.

The amendment to the legal text regarding reconciliation date timescales do not materially change the intent of the Modification in comparison to P361.

The proposed legal text can be found as an attachment to this Modification Proposal Form.

10 Recommendations

Proposer's Recommendation to the BSC Panel

The BSC Panel is invited to:

- **AGREE** that P396 not be progressed as a Self-Governance Modification Proposal;
- **AGREE** that P396 be sent directly into the Report Phase;
- **AGREE** that P396 should be implemented on:
 - 5 November 2020 as part of the November 2020 BSC Release subject to an Authority decision being received by 1 April 2020; or
 - 25 February 2021 as part of the February 2021 Release if an Authority decision is not received by 1 April 2020 but is received by 1 July 2020.