

Stage 03: Assessment Consultation

P278 'Treatment of Transmission Losses for Interconnector Users'

P278 proposes to always apply a fixed Transmission Loss Multiplier of 1 to Interconnector BM Units, so that the BSC does not adjust their Metered Volumes for GB transmission losses.

The Proposer argues that because Great Britain participates in the European Inter-TSO Compensation scheme, which compensates for GB transmission losses which occur from hosting cross-border flows, Lead Parties of Interconnector BM Units should no longer be charged for GB transmission losses under the BSC.

This Assessment Procedure Consultation for P278 closes:

5pm on Friday 3 February 2012

The Workgroup may not be able to consider late responses.



The Workgroup:

- Initially recommends **approval** of P278

High Impact:



- Interconnector Users
- Interconnector Error Administrators
- Settlement Administration Agent
- Balancing Mechanism Reporting Agent



Medium Impact:

- Lead Parties of non-Interconnector BM Units



Low Impact:

- ELEXON

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

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About this Document

The purpose of this P278 Assessment Consultation is to invite BSC Parties' and other interested parties' views on the merits of P278. The P278 Workgroup will then discuss the consultation responses, before making a recommendation to the Panel on 8 March 2012 on whether to approve P278.

There are 4 parts to this document:

- This is the main consultation document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also summarises the Workgroup's key views on the areas set by the Panel in its Terms of Reference.
- Attachment A contains more information on the Workgroup's analysis and assessment. It includes further details of the ITC Scheme, the effect of P278 on Trading Charges, and the materiality of the distributional impact on Parties' charges. It also contains details of the Workgroup's membership and full Terms of Reference.
- Attachment B contains the draft redlined changes to the BSC for P278.
- Attachment C contains the specific questions on which the Workgroup seeks your views. Please use this form to provide your response to these questions, and to record any further views/comments you wish the Group to consider.

The Workgroup is issuing P278 for a parallel consultation with [P277 'Allow Interconnector BM Units to choose their P/C Status'](#). P277 will also impact Interconnectors, although the two solutions are independent of one another. For more information about P277, please refer to the separate P277 Assessment Consultation Document.

Further Information

More information is available in:

Attachment **A**: Detailed Assessment

Attachment **B**: Draft Legal Text

Attachment **C**: Assessment Consultation Questions

A complete version of the impact assessment responses received are available on the [P278](#) page of the ELEXON website.



Any questions?

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Why Change?

The BSC currently allocates GB transmission losses to all BM Units, including Interconnector BM Units. This is anomalous in light of recent European legislation on cross-border flows. The Inter-Transmission System Operator (TSO) Compensation Scheme ('the ITC') includes an element that is intended to compensate National Grid as the GB TSO for transmission losses which occur on the GB Transmission System as a result of hosting cross-border flows across Interconnectors. National Grid passes on this compensation (which in reality can be positive or negative) to users of the GB Transmission System through its Transmission Network Use of System (TNUoS) charges. The intention of the European Third Package legislation, of which the ITC is part, is to remove barriers to cross-border flows. The GB (and therefore BSC) arrangements need to remain compliant with any European legislation. The BSC's allocation of GB transmission losses to Interconnector Users could potentially be seen as charging for those GB transmission losses which occur as a result of hosting cross-border flows, and which are intended to be accounted for under the ITC.

Solution

The BSC's Transmission Loss Multiplier (TLM) will be fixed at 1 for all Interconnector BM Units belonging to Interconnector Users and Interconnector Error Administrators. The GB transmission losses that would have been allocated to these Interconnector BM Units will be redistributed across all other (non-Interconnector) BM Units.

Impacts & Costs

P278 impacts the BSC, the Settlement Administration Agent (SAA) and Balancing Mechanism Reporting Agent (BMRA) Service Descriptions, and other SAA and BMRA documents. It directly impacts all Interconnector Users and Interconnector Error Administrators, and indirectly impacts all other BSC Trading Parties. It also impacts the SAA and BMRA, and ELEXON.

The central implementation cost of P278 is £91k, comprising £80k in SAA and BMRA costs and £11k in ELEXON effort. Individual Party costs range from zero to £20k.

Implementation

The proposed Implementation Dates for P278 are 1 November 2012 (November 2012 BSC Systems Release) or 28 February 2013 (February 2013 BSC Systems Release), depending on when Ofgem's decision is received.

The Case for Change

The Workgroup unanimously believes that P278 would better facilitate the Applicable BSC Objectives. It therefore initially recommends that P278 is approved.

How does the BSC currently treat GB transmission losses?

As energy is transported across the GB Transmission System, some of it is lost (for example, through heat caused by the current flowing through overhead lines). The total metered energy which can be drawn from the GB Transmission System to meet demand will therefore always be less than that delivered onto the GB Transmission System by generation. The difference between total metered generation and total metered demand in a Settlement Period is therefore referred to as 'GB transmission losses'. The BSC adjusts the Metered Volumes of all BM Units through the application of Transmission Loss Multipliers (TLMs) to ensure that the total (adjusted) generation matches the total (adjusted) demand in any given Settlement Period. In doing so, it effectively allocates a share of the total GB transmission losses in that Settlement Period to every BM Unit (and thereby to BSC Trading Parties through their Trading Charges).¹

Under the current BSC arrangements, 45% of the total GB transmission losses in a Settlement Period are allocated to BM Units in 'delivering' (exporting) Trading Units, and the remaining 55% to BM Units in 'offtaking' (importing) Trading Units. Within this split, the 'lost' energy is distributed evenly across all BM Units in proportion to their Metered Volumes.² This is often referred to as a 'uniform' allocation of losses.

For each Settlement Period, the Settlement Administration Agent (SAA) calculates two TLMs in accordance with BSC Section T2: the 'delivery' TLM and the 'offtake' TLM. An individual BM Unit's Metered Volume is multiplied by either the 'delivery' TLM or the 'offtake' TLM for that Settlement Period as follows:

- The **'delivery' TLM** (which is less than 1) is applied to all BM Units that are part of 'delivering' (exporting) Trading Units in that Settlement Period. This scales down the BM Units' Metered Volumes to account for GB transmission losses. This means that the Lead Parties for exporting BM Units in delivering Trading Units must export more to meet their contracted positions. If a Trading Unit is delivering overall but includes one or more importing BM Units in a given Settlement Period, then the BM Units in the Trading Unit will receive a reduction (netting benefit) in their allocation of GB transmission losses for that Settlement Period.
- The **'offtake' TLM** (which is greater than 1) is applied to all BM Units that are part of 'offtaking' (importing) Trading Units in that Settlement Period. This scales up the BM Units' Metered Volumes to account for GB transmission losses. This means that the Lead Parties for importing BM Units in offtaking Trading Units must contract for more energy to meet their expected import. If a Trading Unit is offtaking overall but includes one or more exporting BM Units in a given Settlement Period, then the BM Units in the Trading Unit will receive a reduction (netting benefit) in their allocation of GB transmission losses for that Settlement Period.



What is the issue?

The BSC currently adjusts the Metered Volumes of Interconnector BM Units for GB transmission losses. This is anomalous in light of recently introduced European regulations on cross-border flows.



What are Trading Units?

A Trading Unit is a collection of one or more BM Units.

If the sum of the Metered Volumes across all of the BM Units in a Trading Unit is greater than zero for a given Settlement Period, the Trading Unit is a **'delivering' Trading Unit**.

If the sum of the Metered Volumes across all of the BM Units in a Trading Unit is less than or equal to zero for a given Settlement Period, the Trading Unit is an **'offtaking' Trading Unit**.

For more information, please see BSC Section T2.1.

¹ Losses on Distribution Systems are separately accounted for through the application of Line Loss Factors (LLFs) and GSP Group Correction.

² In practice, this split is designed to be equivalent to a 50:50 allocation, but with allowance for the fact that metering for most generation connections is on the high-voltage side of the supergrid transformer, whereas that for demand is on the low-voltage side. The 45:55 allocation of transmission losses is intended to allow for supergrid transformer losses for demand connections which are in addition to the metered flow.

What are the European regulations for the treatment of cross-border flows?

National Grid, as the GB Transmission System Operator (TSO), participates in the mandatory European Inter-TSO Compensation (ITC) scheme on behalf of GB. The intention of this scheme is to compensate the national TSO of each European Member State for the transmission losses which occur on its national transmission system as a result of hosting cross-border flows across Interconnectors, thus removing the need for individual national charges. Specifically, within this scheme, there is a mechanism that is intended to compensate the GB market (via National Grid as the GB TSO) for the transmission losses which occur on the GB Transmission System as a result of hosting cross-border (Interconnector) flows. This scheme is part of the wider European Commission objectives of removing barriers to cross-border flows, creating a single European market in electricity, and thus facilitating greater competition and benefits for consumers. It also relates to the move, under the Third Package, towards viewing Interconnectors as extensions to transmission systems in this single market which should not be subject to additional national network charges.

The Electricity and Gas (Internal Markets) Regulations 2011 ('the Regulations') have amended electricity and gas legislation and licences in order to implement the Third Package. The Third Package includes Regulation (EC) No 714/2009³ on conditions for access to the network for cross-border exchanges in electricity ('the Electricity Regulation'). Article 14 of Regulation 714/2009 requires that ITC payments and receipts are taken into account when setting national network charges. Commission Regulation (EU) No. 838/2010⁴ of 23 September 2010 ('the ITC Regulation') is created under Article 18(5) of the Electricity Regulation. The ITC Regulation therefore falls within the realm of the Third Package. These regulations became legally binding on all EU Member States on 3 March 2011.

The Electricity Regulation is directly applicable in Great Britain, as is the ITC Regulation. These Regulations supersede national law, so the GB (and therefore BSC) arrangements need to comply with these Regulations. If GB cannot demonstrate compliance, there is a risk that the Commission may initiate formal infringement proceedings against the GB Government. New Applicable BSC Objective (e) also relates to the BSC's 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 (ACER).

How does the ITC work?

Each month, National Grid submits data to an ITC Administrator, who is appointed by the European Network of Transmission System Operators for Electricity (ENTSO-E). The data is for specified time intervals over the previous month, as directed by ENTSO-E. The data from all participants in the ITC is used to calculate how much compensation each Member State will pay into, or receive from, the ITC fund. More information is available in Attachment A. Note that National Grid only supplies the raw data; it is not involved in nor has any say in the actual calculations.

National Grid passes on this compensation (which may be positive or negative) to users of the GB Transmission System through its Transmission Network Use of System (TNUoS)

³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>

⁴ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:250:0005:0011:EN:PDF>

charges.⁵ The compensation (whether positive or negative) is therefore funded entirely by GB Transmission System Users with no profit or loss to National Grid.

TNUoS is an annual product. At the beginning of the year, National Grid forecasts what its ITC compensation (positive or negative) will be for that year and factors these costs into the upcoming TNUoS charges. At the end of the year, it compares the actual costs against its forecasts, and adjusts TNUoS charges as appropriate. If National Grid makes a net contribution to the ITC fund, then Transmission System Users will be charged accordingly through TNUoS. If National Grid receives a net payment from the ITC, this will be distributed to Transmission System Users through TNUoS. National Grid made its first adjustments to TNUoS for the ITC during 2010, which also removed TNUoS charges from Interconnector Users.

'Cross-border flows' versus 'transits'

The intention of the ITC is to compensate for transmission losses arising from all cross-border (i.e. Interconnector) flows, and the costs of making the necessary incremental infrastructure available. However, the mechanism which the ITC uses to calculate the losses element of the compensation only looks at a specific subset of these cross-border flows called 'transits'.

EU Commission Regulation No 838/2010 says:

*"Transmission system operators should be compensated for energy losses resulting from hosting **cross-border flows** of electricity. Such compensation should be based on an estimate of what losses would have been incurred in the absence of **transits of electricity**."*

And Section 4.2 of Annex A of Regulation 838/2010 says that:

"The amount of losses incurred on a national transmission system shall be established by calculating the difference between:

(1) the amount of losses actually incurred on the transmission system during the relevant period; and

*(2) the estimated amount of losses on the transmission system which would have been incurred on the system during the relevant period **if no transits of electricity had occurred**."*

Article 2 of EC Regulation No 714/2009 defines a 'cross-border flow' and a 'declared transit' as follows:

*"**'cross-border flow'** means a physical flow of electricity on a transmission network of a Member State that results from the impact of the activity of producers and/or consumers outside that Member State on its transmission network."*

*"**'declared transit'** means a circumstance where a declared export of electricity occurs and where the nominated path for the transaction involves a country in which neither the dispatch nor the simultaneous corresponding take-up of the electricity will take place."*

⁵ Following Ofgem's approval of change [ECM-26 'Review of Interconnector Charging Arrangements'](#).

Cross-border flows therefore cover all imports into and exports out of GB over Interconnectors, while transits are a specific subset of these flows where GB is neither the originator nor end recipient of the flow Interconnector flow.

To date, National Grid has been a net contributor to the ITC. This is because the mechanism the Commission uses for calculating compensation is based on load-flow modelling with and without transit flows for 72 snapshot periods per year. In GB, most transit flows are from South to North, thereby tending to reduce losses on the GB Transmission System (on which more energy tends to flow from northern generation to meet southern demand). See the Workgroup's analysis and worked examples in Attachment A for further details. This may change in the future as new Interconnectors are built.

What is wrong with the current rules?

The BSC currently allocates GB transmission losses to all BM Units, including Interconnector BM Units.

The intention of the European Third Package legislation, of which the ITC is part, is to remove barriers to cross-border flows. The GB (and therefore BSC) arrangements need to remain compliant with any European legislation. The BSC's allocation of GB transmission losses to Interconnector Users could be seen as charging for those GB transmission losses which occur as a result of hosting cross-border flows, and which are intended to be accounted for under the ITC.

National Grid has raised P278 to ensure that the BSC (and thereby GB) demonstrates compliance with the ITC.



What is the proposed solution?

The TLM applied to Interconnector BM Units would be fixed as 1. The BSC would therefore no longer allocate GB transmission losses to any Interconnector BM Units.

This section explains the P278 Proposed Modification, which is the solution put forward by the Proposer.

The Workgroup has not identified any Alternative Modification within the scope of P278 which it believes would better facilitate the Applicable BSC Objectives than the Proposer's solution.

What is the proposed solution?

P278 would amend the BSC to apply a fixed TLM of 1 to all Interconnector BM Units. This means that Interconnector BM Units' Metered Volumes would no longer be adjusted by the TLM, and the BSC would therefore no longer allocate GB transmission losses to any Interconnector BM Units (regardless of whether these Interconnector BM Units belong to Interconnector Users or Interconnector Error Administrators).

The GB transmission losses which are no longer allocated to Interconnector BM Units would instead be allocated across all other non-Interconnector BM Units (proportional to their Metered Volumes and the overall 45:55 split between 'delivery' and 'offtake'). This would involve adjusting the equations for calculating the 'delivery' Transmission Losses Adjustment (TLMO⁺) and the 'offtake' Transmission Losses Adjustment (TLMO⁻) used in the calculation of the 'delivery' and 'offtake' TLMs.

You can find a more detailed description of the P278 solution requirements in Attachment A, which also includes an explanation of the effects of P278 on the TLMO calculation and on Trading Charges.

P278 does not impact the Isle of Man Distribution Interconnector. This is because it has a derogation from the Panel under BSC Section K5.2 such that it is not treated as an Interconnector (i.e. it does not have Interconnector BM Units or an Interconnector Error Administrator). Any other future Distribution Interconnector with such a derogation would also not be impacted. However, any future Distribution Interconnectors without such a derogation would be treated the same as a Transmission Interconnector, and so would be impacted by P278.

P278 does not impact any reporting flows. For example, the SAA-I014 flow will still report TLM values in the same way as currently. However, the actual TLM values reported through this flow for Interconnector BM Units would be 1 (whereas all current TLM values are either greater or less than 1). Parties may therefore need to amend their own systems to accept TLM values of 1 for their Interconnector BM Units.

Legal text

The proposed redlined changes to the BSC to deliver the P278 solution can be found in Attachment B.

Assessment Consultation Question

Do you agree with the Workgroup that the legal text delivers the intention of P278?

The Workgroup invites you to give your views using the response form in Attachment C

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Scope of issue and P278 solution

The GB Transmission System stops just before the shore, on the Transmission System side of the AC/DC conversion equipment. Losses occurring on the Interconnector cables themselves (including the conversion equipment) are allocated to Interconnector Users by the relevant Interconnector Administrator, and fall outside the scope of the ITC, BSC and P278. References to 'GB transmission losses' or 'losses on the GB Transmission System' in this document therefore exclude these cable and equipment losses, the allocation of which will be unaffected by P278. See Attachment A for further details.

Is a retrospective solution required?

No. There is a strong presumption against retrospective rule changes to the BSC, and it is not the Proposer's intention to apply P278 retrospectively. Although the ITC became legally binding in March 2011, the proposed solution to P278 will not be a retrospective solution to account for the intervening time. As long as the GB arrangements are better aligned with European legislation and the requirements of the ITC promptly, it should not be necessary to back-date the P278 solution.

If the process of updating the arrangements is unduly delayed, the Proposer notes that it is possible that the European Commission may seek to impose a solution and timescale that exposes GB to retrospective application. This would only be the case if the Commission instigated formal infringement proceedings against GB.

How does P278 interact with P277?

P278 is being progressed in parallel with P277 'Allow Interconnector BM Units to choose their P/C Status', as they both relate to Interconnectors. P277 proposes to reduce the number of BM Units each Interconnector User and Interconnector Error Administrator is allocated under the BSC, from two to one per Interconnector. The two Modifications have independent solutions which will work separately or together. However, if both are approved, simultaneous implementation would offer a reduction in the combined central implementation costs (see Section 4).

For a detailed description of the interaction between the P277 and P278 solutions, see Attachment A to the separate P277 Assessment Consultation Document.

How does P278 interact with CMP202?

National Grid has recently raised Connection and Use of System Code Modification Proposal (CMP) [202](#) to remove Balancing Services Use of System (BSUoS) charges from Interconnector BM Units.

P278 and CMP202 are not dependent on each other. However, CMP202 can be viewed as another step towards the European Commission's objectives of facilitating cross-border trades and developing a Europe-wide single internal market in electricity.

Materiality of P278 solution

Under the current BSC arrangements, the volume of GB transmission losses allocated to Interconnector Users is approximately 9,000MWh per month. This equates to just over 2% of GB transmission losses, which would be redistributed to non-Interconnector BM Units under P278 proportionally according to their Metered Volumes.

The total financial materiality to Parties depends on to what extent they are able to forecast TLMs and factor these into their contractual positions. If they make no adjustment to their contracts to account for GB transmission losses, then the total 'worst case' materiality of this 9,000MWh volume of losses would be £500k a month (approximately £6m a year).

The Group notes that Parties who are purely Interconnector Users, and do not have any other generation or supply assets, will benefit most under P278 as other Parties will see the reduction in Trading Charges for their Interconnector BM Units offset to different extents by the increase in Trading Charges for their non-Interconnector BM Units.

See Attachment A for the Workgroup's further analysis of the materiality of the issue and the total distributional effect (movement of money) which would occur under P278.

Could a Trading Unit solution resolve the P278 issue?

BSC Sections K4 and K5.7 and BSC Procedure (BSCP) 31⁶ allow an Interconnector BM Unit to form part of a 'Class 5' Trading Unit with:

- Other Interconnector BM Units associated with the same Interconnector; and/or
- Other BM Units connected to the same Boundary Point as the Interconnector by Dedicated Assets or Contiguous Assets,

except where an Interconnector BM Unit is associated with an Interconnector that has Boundary Points at more than one Site (in which case the Interconnector BM Unit may only be a Sole Trading Unit on its own).

In practice, no Parties have ever registered a Class 5 Trading Unit although it is possible that some may wish to do so in the future as new Interconnectors are built.

It is a Trading Unit's overall delivering or offtaking status in a Settlement Period which determines which of the two TLM values (delivery or offtake) is applied to scale its BM Units' Metered Volumes in a Settlement Period. Although an Interconnector can only physically flow in one direction during a Settlement Period, this is the net flow after taking account of all the individual Interconnector BM Unit flows (which can be a mixture of Exports and Imports in a given Settlement Period).⁷ BM Units in Class 5 Trading Units would therefore be able to have TLMs applied to the Trading Unit's overall net flow, and would obtain a resulting netting benefit if the individual Metered Volumes of the different BM Units in that Trading Unit were a mix of Exports and Imports in a given Settlement Period. The Workgroup notes that, if all current Interconnector BM Units took advantage of their existing ability to form Trading Units, this could reduce their exposure to GB transmission losses. However, the level of this reduction would be less than 10%. See the Workgroup's analysis in Attachment A.

⁶ 'Registration of Trading Units'.

⁷ This is known as 'superposition'. See Attachment A for more details.

Utilising the existing Class 5 Trading Units would therefore not resolve the issue identified by P278, which is that allocating GB transmission losses to Interconnector BM Units is not demonstrably compliant with the ITC.

The Workgroup has also considered whether allowing Interconnector BM Units to form an aggregated Trading Unit across all Interconnectors (rather than per Interconnector) could resolve the P278 issue. This would allow all Exports and Imports across all Interconnectors and Users to be netted off, with transmission losses only applied to any residual net volume. Some members initially suggested that this would be more in keeping with the fact that the ITC losses compensation mechanism focuses only on 'transit' flows, where equal and opposite volumes of energy flow into and out of GB. However, the Group notes that, without knowing which BM Units' Metered Volumes were transit flows and which were not, a trader who was purely transiting energy would still end up paying for transmission losses while other Interconnector Users who were not transiting would benefit from a reduction in their Trading Charges due to another Party's transits. The Group has concluded that this would not be consistent with the intention of the ITC. The Workgroup has also more widely considered the cost-reflectivity of the ITC, and how best to reflect the ITC in the BSC. You can find the Group's wider discussions in Section 6.

Estimated central implementation costs of P278

The total central implementation cost for P278 is approximately £91k. This comprises:

- Approximately £80k in SAA and BMRA costs; and
- Approximately £11k (45 man days) in ELEXON effort.

These are one-off implementation costs, and there would be no additional ongoing operational costs.

The SAA and BMRA costs include making the relevant changes to the systems equations for calculating TLMs.

The ELEXON costs include managing the implementation project and updating the relevant BSC Sections, Code Subsidiary Documents and other documentation.

If P278 is implemented at the same time as P277 'Allow Interconnector BM Units to choose their P/C Status', a cost-saving of 25-30% can be made on their combined separate costs. Note, however, that the timing of Ofgem's decisions on P277 and P278 will determine whether the two Modifications are implemented in parallel. P277 has a longer lead-time than P278. As P278 is required to ensure GB's compliance with European legislation, it may be that Ofgem determines that P278 should be implemented earlier than P277. The Group's proposed Implementation Dates for P277 give Ofgem the flexibility to approve both changes for the same BSC Release or separate Releases as appropriate. See the P277 Assessment Consultation Document for more information.

Indicative Industry costs of P278

There would be no costs for Interconnector Administrators and Interconnector Error Administrators in implementing P278. Other Parties would incur individual costs ranging from zero up to £20k.

These reflect one-off costs for making the relevant amendments to their systems. See Attachment A for a more detailed description of the solution requirements and their impacts on Parties.

Parties have stated minimal cost-savings if P278 is implemented at the same time as P277.



Industry Impact Assessment

The full responses made by Parties to the Industry Impact Assessment can be found on the [P278](#) page of the ELEXON website.

P278 impacts

Impact on BSC Systems and process	
BSC System/Process	Potential impact
SAA	Changes will be required to amend how the SAA systems calculate TLMs and TLMOs. See Attachment A for more details.
BMRA	Changes will be required to amend the calculation of the Estimated TLMs (ETLMs) used in the derived data calculations on the BMRS. The BMRA will also need to use revised Estimated Transmission Loss Adjustments (ETLMOs) provided by ELEXON. See Attachment A for more details.

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Impact on BSC Parties and Party Agents

The BSC will no longer adjust the Metered Volumes of Interconnector BM Units for GB transmission losses through the TLM (reducing the Trading Charges of Interconnector Users and Interconnector Error Administrators). The Metered Volumes of other non-Interconnector BM Units will therefore be scaled by a greater amount through the TLM (increasing their Trading Charges) in order to still allocate the total amount of GB transmission losses in a Settlement Period.

See Attachment A for more details, including the total distributional effect (movement of money) which would occur under P278.

Impact on Transmission Company

The Transmission Company will not need to undertake any implementation activities for P278.

Impact on ELEXON

Area of ELEXON	Potential impact
Release Management	ELEXON will manage the implementation project.
Market Operations	ELEXON will develop a revised ETLMO calculation methodology for use by the BMRA, and will present this to the ISG for approval.

Impact on Code

Code Section	Potential impact
Section T	Changes will be required to implement the solution. See draft legal text in Attachment B, and Attachment A for an explanation of the legal text.

Impact on Code Subsidiary Documents

CSD	Potential impact
SAA Service Description	Changes will be required to implement the solution. The necessary redlined changes will be developed and consulted on as part of the implementation project if P278 is approved.
BMRA Service Description	Changes will be required to implement the solution. The necessary redlined changes will be developed and consulted on as part of the implementation project if P278 is approved.

Impact on other Configurable Items

Configurable Item	Potential impact
SAA User Requirements Specification	Changes will be required to implement the solution. The necessary redlined changes will be developed and consulted on as part of the implementation project if P278 is approved.
BMRA User Requirements Specification	Changes will be required to implement the solution. The necessary redlined changes will be developed and consulted on as part of the implementation project if P278 is approved.

Other Impacts	
Item impacted	Potential impact
ELEXON Information Sheets	Updates will be needed to the Transmission Losses Information Sheet and the Imbalance Pricing Guidance Note (which includes an explanation of TLMs). ELEXON will make the necessary changes as part of the implementation project if P278 is approved.

Recommended Implementation Dates

The Workgroup's recommended Implementation Dates for P278 are:

- 1 November 2012 (November 2012 BSC Systems Release) if ELEXON receives Ofgem's decision on or before 1 May 2012; or
- 28 February 2013 (February 2013 BSC Systems Release) if ELEXON receives Ofgem's decision after 1 May 2012 but on or before 28 August 2012.

The lead time for P278 is driven by the time required to make the changes to central systems, as the lead times given by Parties in their Impact Assessments were all shorter than this, with such responses ranging from minimal up to 3 months. Based on the required central lead time, the November 2012 BSC Systems Release is the earliest viable Implementation Date for P278.

The Workgroup has considered whether the P278 Implementation Date should be aligned with Parties' annual (April) or mid-year (October) contract rounds, in order to allow Parties to adjust their contracts to take account of the expected shift in their TLMs and Trading Charges. However, the Group notes that P278 would only lead to the reallocation of approximately 2% of GB transmission losses. The Group notes that many factors can currently cause the level of GB transmission losses to fluctuate by around 2%. It therefore concludes that this is not a material enough amount that the implementation of P278 needs to be aligned with Parties' contract rounds, which would require implementation outside a normal BSC Release.

The Workgroup notes that there will be central cost-savings if P277 and P278 are implemented at the same time. However, P277 has a longer lead time (due to its higher impact on Parties) and so the first viable Implementation Date for P277 is the February 2013 Release. See the P277 Assessment Consultation Document for more details.

The Group notes that P278 can therefore feasibly be implemented earlier than P277. The Group has considered delaying the P278 implementation to achieve the central cost-savings with P277 (there would be no cost-savings to Parties). However, it notes that, while not insignificant, the cost-savings of implementing both Modifications together are far less than the costs GB would incur if the European Commission was to instigate infringement proceedings for a perceived non-compliance with the ITC. The Group considers that Ofgem may therefore wish to achieve a quicker implementation for P278. Its proposed Implementation Dates for P277 and P278 allow Ofgem the flexibility to approve P278 for an earlier implementation than P277 if required.

Assessment Consultation Question

Do you agree with the Workgroup's recommended Implementation Date?

The Workgroup invites you to give your views using the response form in Attachment C



Is P278 appropriate?

Some members of the Workgroup were initially concerned as to whether P278 is the correct solution to demonstrate compliance with the ITC.

Some members question the appropriateness and cost-reflectivity of the ITC. They are concerned that the ITC compensation calculation is not publicly-available and transparent. They are also concerned that the stated intention of the ITC (to compensate for GB transmission losses caused by all cross-border flows) is inconsistent with the actual compensation mechanism (which appears to only consider transit flows). They note that the ITC does not appear to recognise that in GB, unlike other European Member States, Users rather than the Transmission System Operator pay for transmission losses.⁸ These members therefore initially questioned whether the BSC should only remove charges for GB transmission losses from Interconnector BM Units where they arise from transit flows, to be consistent with the ITC compensation mechanism.

After significant discussion, the Workgroup has concluded that P278 is the most proportionate, and therefore the most appropriate, solution to better demonstrate compliance with the ITC. The Group notes that, while it retains its above concerns, the ITC has been legally binding since March 2011 and takes precedence over GB law. The longer the delay in implementing a BSC solution, the greater the risk that the European Commission instigates formal infringement proceedings – the legal costs of which would significantly outweigh the amount of GB transmission losses (and materiality to Parties) associated with P278. While work could be done to try to develop a fully cost-reflective BSC solution to establish which GB transmission losses relate to pure transit flows over Interconnectors, this would be extremely complex and would take a significant amount of time to develop and implement. The costs of such an alternative solution would also be likely to far outweigh the materiality (distributional effect) of the Proposer's P278 solution. Some members also believe that it is the intent of the ITC which matters from a compliance perspective, and the Proposer's P278 solution is consistent with the ITC's intention to cover all cross-border flows and not just transits. Alternatives which do not embrace that intent would therefore risk being perceived as non-compliant.

What are the Workgroup's views against the Applicable BSC Objectives?

The following table contains the Proposer's and the Workgroup's views against each of the Applicable BSC Objectives:

Does P278 better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views ⁹
A	<ul style="list-style-type: none"> Yes – will ensure GB charges for Interconnector Users are more transparently aligned with EC Regulations. 	<ul style="list-style-type: none"> Yes – agree with Proposer.

⁸ The normal arrangement in most other European countries is that the national TSO includes transmission losses in its network charges.

⁹ Shows the different views expressed by the other group members – not all members necessarily agree with all of these views.

Recommendation

The Workgroup initially recommends approval of P278.



What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity Transmission System

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency

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Does P278 better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views ⁹
B	<ul style="list-style-type: none"> • Neutral – no impact. 	<ul style="list-style-type: none"> • Neutral – no impact.
C	<ul style="list-style-type: none"> • Yes – will treat GB BM Units consistently with equivalent arrangements in Europe. 	<ul style="list-style-type: none"> • Yes – agree with Proposer. • Unsure – when considered in a purely-GB context, then does not appear cost-reflective and may or may not be due discrimination. However, overall materiality is small. Could be argued to facilitate competition in a broader European context, when considering the wider European objectives of promoting cross-border flows and a single European energy market.
D	<ul style="list-style-type: none"> • Neutral – no impact. 	<ul style="list-style-type: none"> • Neutral – no impact.
E	<ul style="list-style-type: none"> • Yes – will align GB arrangements with the requirements in the ITC, and thereby with the Electricity Regulation and Third Package. 	<ul style="list-style-type: none"> • Yes – agree with Proposer.

The initial unanimous view of the Workgroup is that P278 better facilitates the Applicable BSC Objectives and should be approved.

Assessment Consultation Question

Do you agree with the Workgroup's initial unanimous view that P278 better facilitates the Applicable BSC Objectives when compared with the current BSC rules?

The Workgroup invites you to give your views using the response form in Attachment C

Assessment Consultation Question

Do you agree with the Workgroup that there is no Alternative Modification within the scope of P278 which would better facilitate the Applicable BSC Objectives than the Proposer's solution?

The Workgroup invites you to give your views using the response form in Attachment C