

Stage 03: Assessment Consultation

P269 'Prevention of Base Trading Unit BMUs' Account Status Flipping from Consumption to Production'

P269 will prevent the P/C Status of BM Units in Base Trading Units 'flipping' from Consumption to Production if the level of embedded generation increases.

'Flipping' could result in Imbalance Charges for all Suppliers and some Exemptable (licence-exempt) generators.

To avoid this risk, P269 will give all BM Units in Base Trading Units a fixed P/C Status of Consumption (with the exception of any Exempt Export BM Units which have already chosen, or which later choose, to be Production).

The Workgroup:



- Initially recommends **approval** of P269; and
- Seeks your views on whether P269 meets the criteria for progression as a Self-Governance Modification Proposal.

High Impact:



- All Suppliers; and
- Lead Parties for any Exempt Export BM Units in Base Trading Units which have not chosen a specific fixed P/C Status.

Medium Impact:



The Central Registration Agent and 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 P269 Assessment Consultation is to invite BSC Parties' and other interested parties' views on the merits of P269. The P269 Workgroup will then discuss the consultation responses, before making a recommendation to the Panel in July 2011 on whether to approve P269.

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 Group's assessment. It includes further details of the current P/C Status rules, worked examples of how 'flipping' could occur, the results of the Group's analysis of how close the issue is to occurring in practice, and the Group's investigation into the interaction between P269 and the existing Credit Cover calculation. It also contains details of the Workgroup's membership and full Terms of Reference.
- Attachment B contains the draft redlined changes to the Code for P269.
- Attachment C contains the specific questions on which the Group 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 Group is issuing P269 for a parallel consultation with related Modification Proposal [P268](#) 'Clarify the P/C status process for Exempt Export BM Units'. P268 also impacts the P/C Status rules, and both P268 and P269 will impact Exempt Export BM Units (Exemptable generators, such as wind farms). You can find a summary of the interaction between P268 and P269 in Section 3 of this P269 consultation document. For more information about P268, please refer to the separate P268 Assessment Consultation Document.



Any questions?

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Why Change?

Increased embedded generation could cause the P/C Status of all Supplier BM Units, and some Exempt Export BM Units, in a Base Trading Unit to 'flip' from Consumption to Production. This could expose the Lead Parties for these BM Units to Imbalance Charges.

Solution

P269 fixes the P/C Status of all BM Units in a Base Trading Unit as Consumption, with the exception of any Exempt Export BM Units in the Base Trading Unit which have already chosen (or which subsequently choose) to be Production. This Consumption status will not change regardless of the level of embedded generation in the Base Trading Unit.

Impacts & Costs

P269 impacts all Base and Additional Supplier BM Units, some embedded Exempt Export BM Units, ELEXON and the Central Registration Agent (CRA).

P269 requires a change to the P/C Status calculation in BSC Systems. It also amends the BSC, BSC Procedures (BSCPs) 15 & 31, the CRA Service Description and other CRA documents. It has no retrospective element.

Its central implementation costs are £43k (£17k in CRA costs and £26k in ELEXON effort).

Implementation

The Workgroup proposes an Implementation Date of either 23 February 2012 or 5 April 2012, depending on when P269 is approved.

The Workgroup seeks your views on implementing P269 in parallel with P268.

The Case for Change

The Workgroup unanimously believes that P269 is a pragmatic solution to the immediate imbalance risk of 'flipping'. The Group therefore believes that P269 facilitates competition and Applicable BSC Objective (c), and should be implemented.

The Proposer believes that P269 also better facilitates efficiency and Applicable BSC Objective (d). The other members are unsure, or do not agree. They believe that it may not be appropriate to continue fixing all Base Trading Units as Consumption once (or if) one or more Base Trading Units becomes a regular net exporter of electricity. These members recommend that the Panel establishes a separate Workgroup to consider the longer-term implications that increased embedded generation could have for the original principles of NETA.¹ You can find further details in Section 3.

Self-Governance

The Proposer believes that P269 should progress through the self-governance route (meaning that the Panel, not Ofgem, would decide whether to approve or reject it). The Panel initially supports this. However, other members of the Workgroup do not agree. This is because they believe that, while P269 is the right short-term solution and should be approved, it raises questions of principle which Ofgem should consider. See Section 7 for more information.

Recommendation

The Workgroup initially recommends approving P269.

It seeks your views on whether P269 meets the criteria for progression as a Self-Governance Modification Proposal.

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¹ The New Electricity Trading Arrangements, introduced in 2001.



What is...?

A BM Unit?

A unit of trade in the Balancing Mechanism, such as a generating unit or a collection of consumption meters.

A Trading Unit?

A combination of BM Units, which may have the same or different Lead Parties.

A Lead Party?

The Party who registers a BM Unit and is responsible for its generation or demand.

A GC or DC value?

An estimate of a BM Unit's maximum generation or demand.

A Lead Party must submit GC and DC values for each of its BM Units in each BSC Season. It must also submit revised values during a Season if the expected maximum generation/demand is likely to exceed its original estimates by more than the amount specified in BSC Section K3.

An Exempt Export BM Unit?

A BM Unit which comprises Exemptable Generating Plant (a Generating Plant which does not by itself require a generation licence – e.g. a small wind farm). See Attachment A of the separate P268 Assessment Consultation Document for more details.

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This section summarises the background to P269 and the defect which the Proposer identifies in the current P/C Status rules. You can further information on the existing rules in Attachment A.

What's a P/C Status and why does it matter?

Every BM Unit has a P/C Status which, on any given Settlement Day, is either Production or Consumption.

A BM Unit's P/C Status is important, as it determines which of a Party's Energy Accounts the BM Unit's net Metered Volume is allocated to for that Settlement Day. If the BM Unit's P/C Status is Production, its Metered Volume will be allocated to the Production Energy Account. If its P/C Status is Consumption, its Metered Volume will be allocated to the Consumption Energy Account.

If a Party notifies its contracts to the wrong account (e.g. if its P/C Status is Production but it notifies its contracts to its Consumption Account), it will be in imbalance on both accounts and will incur associated Imbalance Charges.

BSC Section K3 contains the existing rules for determining P/C Status.

How is P/C Status currently determined?

With the exception of Exempt Export BM Units and Interconnector BM Units, a BM Unit's P/C Status is determined dynamically by summing the Relevant Capacities of all BM Units in its Trading Unit.²

The Relevant Capacity of a BM Unit is based on its Generation Capacity (GC – a positive value) and Demand Capacity (DC – a negative value). If the sum of a BM Unit's GC and DC values is positive and greater than zero, then its Relevant Capacity is its GC value. Otherwise its Relevant Capacity is its DC value.

If the sum of the Relevant Capacities for all BM Units in the Trading Unit is positive and greater than zero, then the P/C Status for that Trading Unit and all of its BM Units is Production. Otherwise the P/C Status for the Trading Unit and all its BM Units is Consumption.

If a BM Unit is in a Sole Trading Unit on its own, then its P/C Status is only affected by its own GC and DC values. However, if it is part of a Trading Unit with other BM Units then its P/C Status is affected by the GC/DC values of all other BM Units in the Trading Unit.

The BM Unit's P/C Status is redetermined, and can change, each time:

- The BM Unit joins or leaves a Trading Unit;
- Another BM Unit joins or leaves the Trading Unit to which the BM Unit belongs; or
- There is any change in the GC or DC values of any of the BM Units which belong to that Trading Unit.

² Interconnector BM Units are allocated in fixed Production/Consumption pairs, whose P/C Status does not change. See the following page for an explanation of the P/C Status rules for Exempt Export BM Units.



What is...?

A Base Trading Unit?

The BSC divides Great Britain into 14 geographic areas of electricity demand, called Grid Supply Point Groups.

Each has a Base Trading Unit containing all Supplier BM Units within the GSP Group (one Base BM Unit for each Supplier plus any Additional BM Units which Suppliers register). The Metered Volumes of these Supplier BM Units collectively comprise all Suppliers' demand volumes for that geographic area, plus any embedded (distribution-connected) generation which is not part of an Exempt Export BM Unit.

By default, the Base Trading Unit also contains all embedded Exempt Export BM Units within the GSP Group. However, the Lead Party of an embedded Exempt Export BM Unit can choose to register it in a different Trading Unit if it wishes.

Directly-connected (i.e. transmission-connected) Exempt Export BM Units are not part of a GSP Group, and so cannot be in a Base Trading Unit.

Exempt Export BM Units can independently elect their P/C Status regardless of their own Relevant Capacity and the Relevant Capacities of any other BM Units in their Trading Unit. Exempt Export BM Units can currently elect to have a P/C Status which is fixed as either Production or Consumption (and which does not change unless the Lead Party makes a new election), or which is determined dynamically at the Trading Unit level as described above. If they do not make an election, their P/C Status is determined dynamically at the Trading Unit level by default.³

What was Issue 38?

In late 2009, the Issue 38 Group⁴ considered a number of potential issues relating to the growth of embedded (distribution-connected) generation and how these might affect the BSC arrangements.

One of the issues which the Group considered concerns the impact of increased levels of embedded generation on the P/C Status of BM Units in Base Trading Units.

P100 introduced the concept of Base Trading Units in 2003.⁵ To date, Base Trading Units have always consistently had Consumption status as they have comprised more demand than generation. However the Issue 38 Group considered that, with the growth in levels of embedded generation in particular geographic areas (such as the North of Scotland), it is increasingly possible that the sum of the Relevant Capacities for BM Units in a Base Trading Unit could become positive and greater than zero.

This would result in the P/C Status of the Base Trading Unit (and all BM Units whose P/C Status is linked to that of the Trading Unit) 'flipping' from Consumption to Production.

The Imbalance Settlement Group (ISG) also noted this potential issue in 2004/2005.⁶

How could 'flipping' occur?

There are two ways in which an increase in embedded generation could cause the sum of the Relevant Capacities for all BM Units in a Base Trading Unit to become positive and greater than zero, such that the Trading Unit 'flips' from Consumption to Production:

- If one or more Supplier BM Units increases its GC to reflect an increase in the expected SVA embedded generation within its Metered Volumes, such that this GC value becomes large enough to exceed its DC and thereby makes the BM Unit's Relevant Capacity its GC value; and/or
- If the number of CVA embedded Exempt Export BM Units in the Base Trading Unit, and/or the GC values (and therefore the Relevant Capacity values) of these BM Units, increases.⁷

You can find worked examples of each of these scenarios in Attachment A.

³ See the separate P268 Assessment Consultation Document for more information on the rules for Exempt Export BM Units.

⁴ [Standing Issue 38](#) 'Potential Improvements to Credit Checking Rules to Support High Levels of Embedded Generation in North Scotland'.

⁵ Approved Modification [P100](#) 'Extension of Demand-side Trading Units in order to increase the competitiveness of the market for embedded benefits'. See the separate P268 Assessment Consultation Document for more information on P100.

⁶ See ISG paper 48/013 'Possible CVA issues arising from increased volumes of embedded generation'. This paper has been archived from ELEXON's website, but is available on request.

⁷ An Exempt Export BM Unit's Relevant Capacity is likely to be Production (i.e. its GC is likely to be bigger than its DC) regardless of what P/C Status it has elected.

Because GC and DC values are estimated (not actual) values, and relate to a BM Unit's maximum generation and demand for a BSC Season (not its net or average position), it is possible for a Base Trading Unit's P/C Status to be Production even if it is not an actual net exporter of electricity.

What problems would 'flipping' cause?

Risk of imbalance

If increased embedded generation results in the P/C Status of a Base Trading Unit 'flipping' from Consumption to Production, then the P/C Status for all the Supplier BM Units in the Base Trading Unit (and any Exempt Export BM Units in the Base Trading Unit whose P/C Status is dynamically determined at the Trading Unit level) will become Production. These BM Units' net Metered Volumes will therefore be allocated to the relevant Parties' Production Accounts.

This could expose the Lead Parties to imbalance charges, if the Parties originally notified their contracted volumes against their Consumption Accounts.

This would affect any Metered Volume Reallocation Notifications (MVRNs) the Lead Party has in place, as well as its Energy Contract Volume Notifications (ECVNs).⁸

Impact on Credit Cover

If a Base Trading Unit 'flips' to Production, this would also change the way that Credit Cover is calculated for some Supplier BM Units in the Base Trading Unit.

This is because it is a Supplier BM Unit's P/C Status which determines how a small part of its credit assessment is undertaken. If a Supplier BM Unit becomes Production then:

- If it already submits Final Physical Notifications (FPNs), part of its credit assessment will become based on its FPN rather than its GC or DC as currently;
- If it does not submit FPNs, and the sum of its GC and DC values is negative or zero, then part of its credit assessment will continue to be based on its DC as currently (unless the Supplier BM Unit contains SVA embedded generation and it has applied for a special negative Credit Assessment Load Factor (CALF) value); or
- If it does not submit FPNs, and the sum of its GC and DC values is positive and greater than zero, then part of its credit assessment will become based on its GC rather than its DC as currently (which may have unintended effects if the Supplier has previously applied for a negative CALF value).

You can find a detailed explanation in Attachment A.

Can Parties avoid this imbalance risk?

Exempt Export BM Units can avoid the risk of imbalance under the current arrangements by electing a P/C Status which is fixed as either Production or Consumption, and which does not change with the overall status of the Trading Unit.

⁸ This is because BSC Section P3 only allows a Lead Party to reallocate a BM Unit's Metered Volume to another Party through an MVRN if the Energy Account of the other Party matches the P/C Status of the BM Unit (i.e. if the BM Unit has a P/C Status of Production, the MVRN must be to the other Party's Production Account). A change in the BM Unit's P/C Status automatically terminates the MVRN.

If Suppliers are aware in advance of the change in a Base Trading Unit's P/C Status to Production, they could also take action to prevent imbalance exposure by amending their systems/processes to notify their contacted volumes against their Production Accounts instead.

However, the Group notes that this could be seen as undermining the original intention of NETA that Parties who have separate licensable generation and supply businesses (i.e. vertically-integrated companies) should treat these separately through their Production and Consumption Energy Accounts respectively.

It would also mean that Suppliers would be handling imbalance for that GSP Group differently to other GSP Groups whose Base Trading Units still have a Consumption P/C Status (i.e. they would have metered demand volumes for that GSP Group in their Production Energy Account, but the demand volumes for the other GSP Groups in their Consumption Energy Account). The Workgroup notes that this could cause practical issues for Suppliers, and could affect their consolidation benefits.

In addition, Parties in Base Trading Units would not necessarily be aware if the P/C Status of the Base Trading Unit changes from Consumption to Production until after the event. Currently, each Lead Party for a BM Unit receives notification through the CRA-I014 data flow of any change in its own BM Unit's registration data (including its P/C Status). ELEXON also publishes registration data for every BM Unit through the ELEXON Portal. The Portal data is updated daily, and it includes each BM Unit's current GC/DC values, Trading Unit and P/C Status. However, if one BM Unit in a Base Trading Unit submits GC/DC values which flip the Trading Unit's P/C Status, the Lead Parties for the other affected BM Units in the Trading Unit are unlikely to know this until after the change in P/C Status has occurred.

The Proposer suggests that Suppliers could prevent their GCs from exceeding their DCs, and thereby prevent their Base Trading Unit from becoming Production, by artificially-inflating their DC values to make them higher/more negative. The Group notes that Parties are only required to resubmit their DC values if their expected demand is higher (more negative) than their DC, not lower. However, because Suppliers' DC values would be used in their Credit Cover calculation, inflating them could increase the amount of credit Suppliers have to lodge. The Group notes that it might also put Suppliers in breach of the requirement in BSC Section K3.4.1 that a Lead Party shall estimate its GC and DC 'in good faith and as accurately as it reasonably can'.

Why is the imbalance issue limited to Base Trading Units?

The P/C Status of BM Units in all other types of Trading Unit is also determined dynamically at the Trading Unit level, and can therefore change at any time according to the total Relevant Capacity of the Trading Unit. However, the Group considers that a change in P/C Status is a managed risk for other Trading Units. This is because other types of Trading Unit can only be formed with the agreement of all the Lead Parties involved, and it is therefore possible for these Parties to put in place bilateral agreements to notify each other of their GC/DC changes.

In contrast, the Group believes that 'flipping' is an unmanaged risk for Base Trading Units, because these consist of BM Units which are part of the Trading Unit by default. BM Units in Base Trading Units are therefore unlikely to be aware if another BM Unit joins or leaves the Trading Unit and/or changes its GC/DC values. If this changes the Base Trading Unit's overall P/C Status, then the BM Units in the Trading Unit are unlikely to know this until after the event when they are notified through the CRA-I014 data flow.

How likely is 'flipping' to happen?

At the time of producing this consultation document, 'flipping' has not occurred in practice for any Base Trading Unit.

The Group has undertaken analysis which shows the trend in total Relevant Capacity values for each Base Trading Unit from April 2005 to April 2011 (i.e. up to the current BSC Spring Season). You can find the full analysis in Attachment A.

The analysis confirms the Issue 38 Group's earlier findings in 2009 that the Base Trading Unit for the North Scotland GSP Group is likely to be the first to experience P/C Status flipping. However, the Summer 2010 Relevant Capacity values for this Base Trading Unit were less close to zero (and therefore less close to flipping its P/C Status to Production) than the Summer 2009 values noted by the Issue 38 Group, and the Spring 2011 values were less close than both the Spring 2009 and Spring 2010 values.

Summer has historically been the period in which the North Scotland Base Trading Unit's total Relevant Capacity has been closest to zero (because of the reduction in demand during the summer). The Group is currently proceeding on the basis that a solution to the imbalance risk caused by 'flipping' should be implemented before the start of the Summer 2012 BSC Season. However, there remains a possibility that the Summer 2011 GC/DC submissions could cause the Base Trading Unit to flip to Production.

The Summer 2011 BSC Season begins on 1 June 2011, and Parties must submit their GC/DC values for this season to the CRA by 17 May 2011. The Group will repeat its analysis once all the Summer GC/DC values have been entered into CRA Systems, and will meet again urgently if this analysis shows that any Base Trading Unit will flip its P/C Status to Production on 1 June when the values become effective. However, because the CRA has to enter all the GC/DC submissions into the systems before the analysis can be undertaken, any advance notice that ELEXON and the Group has (and is able to provide to Parties) may be very limited.

3 Solution

This section summarises the P269 solution as put forward by the Proposer. You can find further details of the solution in Attachment A.

The Proposer's solution is unchanged from their original Modification Proposal. There are no areas of disagreement between the Proposer and the other Group members over the solution requirements.

What is the P269 solution?

The P269 solution delivers the Issue 38 Group's recommendation that all BM Units in a Base Trading Unit should be given a fixed P/C Status of Consumption, with the exception of any Exempt Export BM Units in the Base Trading Unit which have already elected (or which later elect) to be Production. This Consumption status will not change even if the level of embedded generation in the Base Trading Unit means that the sum of its BM Units' Relevant Capacities becomes positive and greater than zero. This means that all Supplier BM Units (i.e. all Base BM Units and Additional BM Units) will always have a fixed Consumption status.

This solution requires changes to the P/C Status calculation in CRA systems. You can find more information on the systems impact in Attachment A. Attachment B contains the draft redlined changes to the BSC. The Panel will consult on the redlined changes to BSCPs 15 and 31, and the CRA Service Description, in July 2011.

P269 will not prevent all BM Units in a Base Trading Unit being treated as delivering (exporting) rather than offtaking (importing) in a Settlement Period. This situation has already happened in practice. Whether a Trading Unit is delivering or offtaking is determined according to the sum of its BM Units' actual Metered Volumes,⁹ and is therefore separate to a Trading Unit's P/C Status which is determined according to the sum of its BM Units' Relevant Capacities.

How do P269 and P268 interact?

P269 does not change the rules by which Exempt Export BM Units elect their P/C Status. It only allocates a fixed Consumption P/C Status to embedded Exempt Export BM Units in Base Trading Units which have not already elected a fixed P/C Status of Production or Consumption, and whose P/C Status is therefore determined at the Trading Unit level. It does not prevent an Exempt Export BM Unit from changing its election. P269 does not affect Exempt Export BM Units which are directly-connected, or embedded Exempt Export BM Units in other types of Trading Unit.

Separate Modification Proposal P268 seeks to make it mandatory for each Exempt Export BM Unit to elect a fixed P/C Status which is either Production or Consumption. Under P268, Exempt Export BM Units will no longer be able to have a P/C Status which is determined at the Trading Unit level but can still change their election from Production to Consumption (or vice versa) at any time. P268 impacts all directly-connected and embedded Exempt Export BM Units in all types of Trading Unit.

If both P268 and P269 are approved, then the P269 solution will not affect any Exempt Export BM Units. Despite this, P269 on its own does not address the defect identified by P268. The two changes relate to separate issues, and have separate solutions which work independently or together. However, the exact P/C Status rules for Exempt Export BM Units will differ depending on whether both, only one, or neither of the changes are approved. The table on the following page provides more information on this interaction.

If P268 and P269 are both approved, then implementing both changes in parallel may give additional certainty/clarity of the rules for Exempt Export BM Units. The Group seeks your views as part of this consultation.

The Proposer of P268 is seeking retrospection – does this affect P269?

No. A retrospective implementation of P268 will involve retrospectively resetting some Exempt Export BM Units' P/C Status. This will not affect the P269 issue as it is the Relevant Capacity values of Exempt Export BM Units in a Base Trading Unit (and not their P/C Status) which contribute to whether a Base Trading Unit is Production or Consumption. P268 will not retrospectively change any Exempt Export BM Units' GC/DC or Relevant Capacity values.

For a more detailed explanation of P268, please refer to the separate P268 Assessment Consultation Document.

⁹ See BSC Section T2.1. If the sum of the Metered Volumes for all BM Units in a Trading Unit is positive and greater than zero in a Settlement Period, then the Trading Unit is a 'delivering' Trading Unit in that Settlement Period; otherwise it is an 'offtaking' Trading Unit.

P268 and P269 interaction

If both P268 & P269 are implemented	If P268 is rejected but P269 is implemented	If P268 is implemented but P269 is rejected	If both P268 & P269 are rejected
<ul style="list-style-type: none"> All Exempt Export BM Units will be required by P268 to elect a fixed P/C Status of either Production or Consumption, and will be unaffected by the P269 solution. 	<ul style="list-style-type: none"> All Exempt Export BM Units which have voluntarily elected under the current rules to have a fixed P/C Status of Production or Consumption will be unaffected by either the P268 issue or the P269 solution. Any Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are not part of a Base Trading Unit, will be affected by the P268 issue but not by the P269 solution.¹⁰ Any embedded Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are part of a Base Trading Unit, will be affected by both the P269 solution (which will give them a fixed P/C Status of Consumption) and the P268 issue.¹⁰ 	<ul style="list-style-type: none"> All Exempt Export BM Units will be required by P268 to elect a fixed P/C Status of either Production or Consumption, and will be unaffected by the P269 issue. 	<ul style="list-style-type: none"> All Exempt Export BM Units which have voluntarily elected under the current rules to have a fixed P/C Status of Production or Consumption will be unaffected by either the P268 or P269 issues. Any Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are not part of a Base Trading Unit, will be affected by the P268 issue but not by the P269 issue. Any embedded Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are part of a Base Trading Unit, will be affected by both the P268 and P269 issues.

¹⁰ P269 does not resolve the defect identified by P268, which is that an Exempt Export BM Unit should never be allocated a P/C Status which it has not explicitly elected.

Why does P269 fix all Base Trading Units as Consumption?

The Workgroup unanimously agrees that a solution is needed to the immediate imbalance risk which would be caused by a Base Trading Unit 'flipping' to Production.

The Group notes that this solution needs to be relatively quick and easy to implement, in order to deliver it before Summer 2012. Because some members of the Group believe that, in the longer term, the increase in embedded generation may have bigger implications for some of the original NETA principles (see below), these members believe that the costs of any P269 solution to the immediate imbalance risk should also be kept low in case this solution is superseded in the future.

The Group unanimously believes that its chosen solution of fixing all Base Trading Units as Consumption is the most pragmatic and appropriate way to resolve the imbalance issue in the short term.

In reaching this conclusion, the Group has considered and ruled out the following alternative solutions which it identified as falling within the scope of P269:

- **Introducing a process to notify Lead Parties in advance of any changes in the GC/DC values of other BM Units in their Base Trading Unit.**

This would not stop the Base Trading Unit's P/C Status flipping, but could give Parties notice to change their contracts accordingly. However, mid-season GC/DC changes can currently become effective very quickly (usually on the next Working Day if received by 2pm), so the notice period would be limited in practice unless the GC/DC submission timescales were extended.

Because a marginal change in a Base Trading Unit's total Relevant Capacity could flip it to Production, it is possible that the Base Trading Unit could continue to flip back and forth between Production and Consumption for some period of time. Even if Parties had advance notice of this, then they would still need to continually adjust their ECVNs and MVRNs to avoid imbalance. This would cause associated costs and inefficiencies.

The costs and lead time for introducing new central data flows to notify Parties of forthcoming GC/DC changes are also unlikely to be less, and could be greater, than those for the Group's chosen solution.

Finally, giving advance notice of GC/DC changes would not avoid the other implications for Suppliers of their BM Units becoming Production (as outlined in Section 2 above – e.g. having some demand volumes in Production Energy Accounts, and the effect on the their credit assessment).

- **Fixing the P/C Status of Base Trading Units for the duration of a BSC Season, based on the declared GC/DC values for that Season.**

This would stop the Base Trading Unit's P/C Status flipping during a Season due to mid-season GC/DC re-declarations, thereby limiting any change in P/C Status to once per Season. However, Suppliers would still need to amend their contracts accordingly, and this solution would not avoid the other implications outlined in Section 2 of a Supplier BM Unit becoming Production.

The Issue 38 Group also considered and discounted this solution.



Is fixing Base Trading Units as Consumption the best solution?

The Group unanimously agrees that this is the best solution to the immediate imbalance risk of 'flipping'.

However, some members believe that it may not continue to be most appropriate long-term solution once (or if) one or more Base Trading Units becomes a regular net exporter of electricity.

- **Fixing all Base Trading Units as Production.**

This would resolve the imbalance issue. However, it would mean treating all Base Trading Units as generation, even though the majority would still have a total Relevant Capacity which is significantly below zero. It also would not avoid the other implications outlined in Section 2 of a Supplier BM Unit becoming Production.

The Group notes that, while there are potential future credit implications of always fixing all Supplier BM Units as Consumption (see below), these are still some way off from being a significant problem. Fixing all Base Trading Units as Consumption simply preserves the status quo for the majority of GSP Groups, while fixing them as Production would immediately impact all Supplier BM Units. The Group believes that, because that it is not possible to determine when 'flipping' will happen or how systematic an issue this may become in the future, it is better to deliver a solution which simply preserves the current P/C Status for Base Trading Units.

- **Allowing the Panel to decide whether to fix each Base Trading Unit as Production or Consumption.**

This would allow the Panel to fix as Production any Base Trading Unit which may be at risk of flipping (e.g. North Scotland), while fixing the other Base Trading Units as Consumption. This would resolve the imbalance risk by fixing the P/C Status of each Base Trading Unit so that it is no longer dynamically determined. Some members believe that it could also be more in keeping with the original NETA principles for treating generation and demand consistently.

However, as with the other solutions discounted by the Group, it would not resolve the other implications of Supplier BM Units becoming Production.

The Group also notes ELEXON's advice that implementing rules within CRA systems to treat individual Base Trading Units differently (e.g. by introducing a new, Panel-set flag) would be complex, and therefore likely to involve higher costs and a longer lead time than simply allocating them all the same P/C Status.

- **Raising the threshold for becoming Production.**

This is similar to the suggestion above, in that some Base Trading Units would become Production while others remain Consumption. However, it would change the total Relevant Capacity threshold above which a Base Trading Unit 'flips' to Production, so that rather than being 1MW as currently it would be another positive number which is greater than zero (e.g. 50MW or 100MW). This could reduce the possibility of a Base Trading Unit flipping back and forth between Consumption and Production status. However, it would still not resolve the other implications of Supplier BM Units becoming Production.

What are the long-term implications of fixing all Base Trading Units as Consumption?

A majority of Workgroup members believe that it may not be appropriate to continue fixing all Base Trading Units as Consumption once (or if) one or more Base Trading Units becomes a regular net exporter of electricity.

Implications for original NETA principles

These members note that to fix a regularly-exporting GSP Group as Consumption would effectively be treating it as 'negative demand' on the grounds that its export is caused by embedded generation. They are conceptually uncomfortable with this classification – believing that it could go against the original NETA principle of treating generation and demand consistently.

These members also suggest that, as more and more exceptions are introduced to the original NETA P/C Status rules, the less meaningful P/C Status itself becomes. This may also call into question the original principles behind allowing BM Units to form Trading Units, requiring Parties to have separate Production and Consumption Energy Accounts, and/or allowing distribution-connected generators to have embedded benefits. One member questions whether it would be appropriate for an embedded Exempt Export BM Unit to hold a Consumption P/C Status if its Base Trading Unit is regularly exporting. Another member considers that, with the growth of embedded generation, it becomes increasingly less easy to distinguish between traditional 'generation' and 'demand'. They believe that to resolve this entirely would require either removing P/C Status altogether or, at the other extreme, to separately meter all generation and demand at the Supplier BM Unit level.

One member believes that a situation in which a GSP Group is regularly exporting is a long way off and that, by the time it occurs, the industry arrangements could already look very different. Other members recommend that the Panel establishes a separate Workgroup to consider the longer-term implications that increased embedded generation could have for the original NETA principles.

The Proposer does not believe the P269 solution presents any long-term problems. The Proposer believes that embedded generation has always been treated as 'negative demand', and it is therefore appropriate that it should be grouped with other consumption. The Proposer also believes that, because of the way the P/C Status is determined at an aggregated GSP Group level, it is not practical to separate out the positions of Parties who may, on their own, still be net consumers in an overall exporting GSP Group.

Implications for Credit Cover calculation

The Group notes that there is a known, existing, issue where a Supplier BM Unit has:

- A GC value which is bigger than its DC value (and therefore a Relevant Capacity of GC), due to the level of embedded generation within its Metered Volumes; but
- A credit assessment based on its DC value, because it is in a Consumption Base Trading Unit (and therefore has a P/C Status of Consumption).

There are not currently many Supplier BM Units in this situation and, where they are, they can apply for special negative CALF values to address this.

The Group considers that this issue is largely independent of P269, and that in the short-term P269 does not make it any better or worse. There would only be an interaction if, over time:

- Increased embedded generation means that many more Supplier BM Units have GCs which exceed their DCs; and
- One or more Base Trading Units regularly has a total Relevant Capacity which is positive and greater than zero; and
- P269 fixes these Base Trading Units as Consumption where they would otherwise be Production.

This would mean that the credit assessment for these Supplier BM Units would either still be based on their DC values or that (where they have applied for negative CALF values) the current CALF arrangements may no longer be robust.

You can find more details in Attachment A.

The Group notes that, if P269 is implemented, this issue is therefore unlikely to present a significant problem in the short-term. On the other hand, if P269 is not implemented and 'flipping' occurs, this will cause immediate and significant imbalance and credit implications for all Suppliers. Members consider that the impact of imbalance for Suppliers would be much greater than any inaccuracy in a small part of the credit calculation.

The Group agrees that, because 'flipping' could occur at any time, there is a trade-off to be made between finding the best long-term solution (which requires significant further discussion about how the original NETA principles interact with possible future scenarios) and delivering a pragmatic short-term solution to the immediate imbalance risk. The Group unanimously believes that P269 delivers this pragmatic short-term solution.

The Group notes that the solution to the above credit issue, and whether any solution should be delivered through the actual credit calculation or a change to the CALF methodology, is not obvious for the reasons explained in Attachment A. It therefore agrees with ELEXON's suggestion that it should be progressed separately through the ISG (which has responsibility for the CALF Guidance Document) outside the scope of the P269 solution, to avoid delaying P269. One member believes this is an example of why a separate Workgroup discussion of the long-term implications of embedded generation would be beneficial.

4 Impacts & Costs

P269 costs

The total central implementation cost for P269 is approximately £43k.

This comprises:

- £17k in CRA costs; and
- £26k (110 man days) in ELEXON effort.

These costs include updating processes and documentation (see below), amending the P/C Status calculation rules within BSC Systems, testing the revised systems, publicising implementation to Parties and managing the P269 implementation project.

One Workgroup member believes that the implementation costs are high for what they consider to be a simple change. ELEXON notes that P269 requires amendments to BSC Systems,¹¹ and that any systems change has associated development, testing and project management costs.

Cost-savings if implemented with P268

If the P268 Proposed Modification and P269 are implemented together, this will deliver a 33% saving from their combined separate costs. If P269 is implemented with the potential P268 Alternative Modification which the P268 Workgroup is considering, then the total saving will be 42% (effectively subsuming the P268 project overheads within those for P269). See the separate P268 Assessment Consultation Document for further details.

P269 impacts

Impact on BSC Systems and process

BSC System/Process	Potential impact
CRA	P269 will amend the P/C Status calculation in CRA systems. You can further details of the systems impact in Attachment A.

Impact on BSC Parties and Party Agents

P269 will impact the Lead Parties for all Supplier BM Units and any embedded Exempt Export BM Units in Base Trading Units which have not chosen a specific fixed P/C Status.

Impact on Transmission Company

None.

Impact on ELEXON

Area of ELEXON's business	Potential impact
BM Unit/Trading Unit registration	Will need to provide advice/education to Parties on the new P/C Status rules.
Release Management	ELEXON will manage the P269 implementation project.

Impact on Code

Code section	Potential impact
Section K 'Classification and Registration of Metering Systems and BM Units'.	See draft redlined changes in Attachment B.

Impact on Code Subsidiary Documents

CSD	Potential impact
BSCPs 15 'BM Unit Registration' & 31 'Registration of Trading Units'	Minor changes will be needed to reflect the new P/C Status rules for Base Trading Units. You can find further details in Attachment A. The Panel will consult on the actual redlined changes during its Report Phase Consultation in July 2011.

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¹¹ You can find a detailed description of the system impact in Attachment A.

Impact on Code Subsidiary Documents

CRA Service Description	Changes will be needed to reflect the P269 solution. The Panel will consult on the actual redlined changes during its Report Phase consultation in July 2011.
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Impact on other Configurable Items

Configurable Item	Potential impact
CRA User Requirements Specification	Changes needed to reflect the P269 solution.
Interface Definition and Design (IDD)	Changes needed to reflect the P269 solution.

Other Impacts

Item impacted	Potential impact
ELEXON information sheets/guidance notes on Trading Units, BM Units and P/C Status	Will need to correctly reflect the new P269 rules.
CALF Guidance Document	This currently describes how P/C Status interacts with the credit cover calculation, so may need amendments to reflect P269.

5 Implementation

The Group's recommended Implementation Dates for P269 are:

- 23 February 2012 (the date of the February 2012 Release), if P269 is approved on or before 13 October 2011; or
- 5 April 2012 (a stand-alone Release), if P269 is approved after 13 October 2011 but on or before 1 December 2011.

The Group notes that the 28 June 2012 Release falls after the start of the Summer 2012 BSC Season on 1 June. It has therefore agreed a fall-back date which is a stand-alone Release in April 2012. It notes that this is unlikely to increase the implementation costs, as there are currently no other system changes planned for February 2012 and therefore no significant cost-savings to be achieved from implementing P269 in this Release.

One Workgroup member believes that the 4-month implementation lead time is long for what they consider to be a simple change. ELEXON notes that system changes often take longer than this (normally 6-12 months).

The proposed P269 Implementation Dates align with the Group's recommended Implementation Dates, and associated 'decision by' dates, for P268. If P269 progresses through the self-governance route, then the Panel will make its decision to approve or reject P269 in August 2011 and the timing of Ofgem's P268 decision will determine whether the two changes are implemented together. If Ofgem receives both changes for decision, it can time its decisions to achieve a parallel implementation if it considers this is appropriate.



The Workgroup unanimously agrees that P269 better facilitates the achievement of Applicable BSC Objective (c) and should be approved.

The Proposer believes that P269 also better facilitates Applicable BSC Objective (d). The other members are unsure, or do not agree, but still believe that P269 better facilitates the Applicable BSC Objectives overall when compared with the existing arrangements.

The following table contains the Proposer's and the Group's views against Applicable BSC Objectives (c) and (d). Neither the Proposer nor the Group has identified any impact on Objectives (a) and (b).

Does P269 better facilitate the Applicable BSC Objectives?		
Objective	Proposer's views	Other Group members' views ¹²
(c) – competition	<ul style="list-style-type: none"> Yes – reduces the risk of imbalance for all existing and potential Parties. 	<ul style="list-style-type: none"> Yes – P269 is a pragmatic solution to the immediate imbalance risk of 'flipping'. Yes - if 'flipping' occurs this could put all Suppliers (and some Exemptable generators) into imbalance without an opportunity for them to take preventative action – this would have a significant negative impact on competition, and P269 prevents this.
(d) – efficiency	<ul style="list-style-type: none"> Yes – Removes the need for Parties to invest in systems to monitor and switch their contracted volumes between Energy Accounts in order to avoid imbalance. 	<ul style="list-style-type: none"> Not convinced – although it is the most pragmatic short-term solution, it may not be the best enduring solution (and may create other issues to be resolved) in the long term. Unsure – although it is an appropriate solution to the imbalance issue, it raises questions of principle about the consistent treatment of generation and demand.

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.

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¹² Shows the different views expressed by the other group members – not all members necessarily agree with all of these views.

What does self-governance mean in practice?

If a change is progressed through the self-governance route this means that the Panel, rather than Ofgem, will decide whether to approve or reject it.

A change can be progressed as a Self-Governance Modification Proposal if the Panel and/or Ofgem believes that it satisfies the Self-Governance Criteria.

Deciding whether a change should be Self-Governance only affects the way in which it is progressed, and is different to deciding whether it should be approved. A change which is not appropriate to progress as Self-Governance may still better facilitate the Applicable BSC Objectives, and vice versa.

P269 is the first change for which self-governance has been requested since Ofgem's Governance Review introduced the process to the BSC in December 2010.

What are the Proposer's, Workgroup's and Panel's views?

The table on the following page summarises the current views of the Proposer and other Workgroup members, as well as the Panel's initial view (which it made before the Workgroup's assessment).

Next steps

The Panel has asked the Workgroup to provide a view, and to seek the views of Parties, during its assessment of P269.

The Workgroup therefore invites your view as part of this consultation. It will then provide the views of all consultation respondents and Workgroup members to the Panel in July 2011.

The Panel can either confirm, or change, its earlier view. It will consult on this view during July. If the Panel still believes that P269 meets the Self-Governance Criteria, and Ofgem does not disagree, it will make its decision to approve or reject P269 in August 2011. Otherwise, P269 will go to Ofgem for decision in August.

Does P269 satisfy the Self-Governance Criteria?		
Proposer's view	Panel's initial view	Other Workgroup members' view
<p>Yes, because:</p> <ul style="list-style-type: none"> • P269 does not discriminate against any Party; • P269 will not have a material impact on existing/future consumers, competition, operation of the Transmission System, matters relating to the security of supply, or BSC governance and Modification Procedures; • P269 is designed to prevent an impact on Parties, and not to cause an impact. <p>The Proposer notes the views of the other Workgroup members that P269 may not meet the spirit of the Self-Governance process, but believes that it clearly meets the actual words of the criteria.</p>	<p>Yes, because:</p> <ul style="list-style-type: none"> • The P269 issue is systemic in the BSC arrangements and has been known about for several years; • P269 will prevent a significant negative impact on competition (imbalance), but its implementation will not significantly affect competition as it preserves the status quo for the majority of Base Trading Units; • P269 is consistent with the spirit of the Self-Governance process/criteria; • P269 is the first change for which Self-Governance has been requested – it is appropriate to initially progress it as Self-Governance so that the Panel can seek the views of the Workgroup and wider industry; • Take comfort in the fact that Ofgem can veto Self-Governance if it disagrees with the Panel's views. 	<p>No – P269 should go to Ofgem for decision because:</p> <ul style="list-style-type: none"> • It will treat Base Trading Units differently to other types of Trading Unit, and will treat exporting GSP Groups as 'demand' rather than 'generation'. This is an appropriate short-term solution, but is a significant departure from the original NETA principles and P/C Status rules. • Self-Governance changes should be 'self-evident'. P269 should be approved, but its long-term implications mean it is not self-evident and should be considered by Ofgem. • While the right short-term answer, P269 will clearly impact competition – there are potential commercial impacts and discrimination issues involved. • Although at face value P269 preserves the status quo, it is significantly changing the BSC rules.



What are the Self-Governance Criteria?

A Modification Proposal that, if implemented:

a) is unlikely to have a material effect on:

i) existing or future electricity consumers; and

ii) competition in the generation, distribution or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and

iii) the operation of the national electricity transmission system; and

iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

v) the Code's governance procedures or modification procedures, and

b) is unlikely to discriminate between different classes of Parties.

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8 Further Information



You can find more information in:

Attachment **A**: Detailed Assessment

Attachment **B**: Draft Legal Text

Attachment **C**: Consultation Questions

P268 Assessment Consultation Document

Where can I find...?

More details of the Proposer's views?

You can download a copy of the original Modification Proposal, as submitted by the Proposer, from ELEXON's website [here](#).