Assessment Consultation Responses: P278 'Treatment of Transmission Losses for Interconnector Users'

Consultation issued on 13 January 2012

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

We received responses from the following Parties

Company	No BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
National Grid Interconnectors Limited (NGIC)	1 / 0	Interconnector Administrator / Interconnector Error Administrator
SONI Ltd (System Operator for Northern Ireland)	1 / 0	Interconnector Administrator / Interconnector Error Administrator
BritNed Development Limited	1 / 0	Interconnector Administrator / Interconnector Error Administrator
National Grid	1 / 0	Transmission System Operator
RWE Supply & Trading GmbH	10 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent
Gazprom Marketing & Trading Ltd.	1 / 0	Wholesale Commodity Trader
EDF Trading Ltd	1 / 0	Trader
E.ON	6 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator
IBM (UK) Ltd. (for and on behalf of ScottishPower)	7 / 0	Supplier / Generator / Trader / Consolidator / Exemptible Generator / Distributor
EDF Energy	10 / 0	Generator / Supplier / Trader / Party Agent / Consolidator / Exemptable Generator

Question 1: 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?

Summary

Yes	No	Neutral/No Comment	Other
9	0	0	1

Responses

Respondent	Response	Rationale
National Grid Interconnectors Limited (NGIC)	Yes	Objective A – Yes, The solution aligns with the ITC arrangements. Transmission Licence requires compliance with European Regulations. Objective B – neutral Objective C – Yes in European context, slight reservation in GB context, although low materiality. Objective D – Neutral Objective E – Yes.
SONI Ltd (System Operator for Northern Ireland)	Yes	The adoption of P278 should facilitate the discharge of the transmission system in a manner which is more closely aligned with current European Regulations and which should, ultimately, promote increased cross-border flows (Objective A). The proposal will also advance a common standard with other interconnectors across Europe, thus promoting competition (Objective C).
BritNed Development Limited	Yes	We agree with the Proposer's views.
National Grid	Yes	In common with all other EU countries, the GB electricity market needs to comply with, and be seen to comply with, the EU 3rd package legislation. By aligning the GB treatment of Interconnectors with that prevalent in other Member States, the proposal clarifies and confirms compliance with the appropriate legislation. In addition the proposal will facilitate competition and the European objective of promoting cross-border trade in a wider European energy market. The proposal therefore better facilitates Applicable BSC Objectives: (a), (c) and (e).
RWE Supply &	Yes	We agree with the recommendations of the

Respondent	Response	Rationale
Trading GmbH		Modification Worksgroup.
Gazprom Marketing & Trading Ltd.	Yes	The allocation of GB Transmission Losses to interconnector flows is inconsistent with the European legislation and in particular with Regulation 838/2010. The above mentioned regulation establishes that the losses caused by cross border flows in the GB Transmission System should be compensated for through the Inter TSO Compensation Scheme only. Therefore the allocation of GB Transmission Losses to interconnector flows: • Is inconsistent with the applicable EU legislation (e) • Does not promote effective competition (c) • Represents an inefficient implementation and administration of the balancing settlement arrangements (d) Therefore, the proposal put forward by the P278 workgroup does better facilitate the applicable BSC Objectives.
EDF Trading Ltd	Yes	Our view is that P278 better facilitates Objectives C and E. Applying a fixed Transmission Loss Multiplier of 1 to Interconnector BM Units will align the UK arrangements with the ITC mechanism, in line with Objective E. This will remove a barrier to cross-border flows and facilitate greater competition in line with Objective C.
E.ON	Yes	It appears that the implementation of the Inter-TSO Compensation Scheme by EU Regulation 714/2009 means that P278 would support BSC Objectives (a) and (c) as the Proposer and Workgroup have identified.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	ScottishPower agree that P278 better facilitates Objective e, bringing the UK in closer alignment with European legislation.
EDF Energy	-	We are uncertain whether the proposal would better facilitate BSC objectives. Several of the reasons given in support of the proposal seem to be based on assumptions which do not seem obvious. We describe these in more detail at the end of this response, and summarise here in relation to BSC Objectives: (a) NGET has licence objectives to comply with European Regulations, however for the reasons given

Respondent	Response	Rationale
		at the end of this response, we remain uncertain that this proposal is necessarily required by the Regulations. (b) Given that the proposal could constitute a subsidy to a certain type of flow, it is not clear that it would improve the efficiency of operation of the system in the near future. If it were to result in increases in interconnector capacity it might be able to assist system security and efficiency, but we think market fundamentals and network constraints are more likely than this proposal to drive investment in interconnectors. (c) Given that the proposal could constitute a subsidy to a certain type of flow, it is not clear that it would improve efficient competition in the purchase and sale of electricity in the near future, although it might increase cross-border trade. If it were to result in increases in interconnector capacity it might be able to assist competition and liquidity in the long term, but we think market fundamentals and network constraints are more likely than this proposal to drive investment in interconnectors. (d) There do not appear to be any central cost efficiencies were this proposal to be implemented. (e) We are not convinced that European Regulations necessarily require this proposal, or any other, to change the general method of allocation of losses or loss related costs or benefits between delivering and offtaking users of the GB system. Further, it is unclear why National Grid have chosen to allocate the amounts paid or recovered for losses under the Inter-TSO Compensation Scheme in adjustments to unrelated TNUoS charges. A more consistent approach would be to apportion the amounts in a similar manner to the existing allocation of actual losses, with all users sharing the cost or benefit.

Question 2: 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?

Summary

Yes	No	Neutral/No Comment
9	1	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors Limited (NGIC)	Yes	-
SONI Ltd (System Operator for Northern Ireland)	Yes	The P278 proposal removes, in an effective and economic manner, the irregularity of interconnector users and the IEA being charged for transmission losses even though SONI and the National Grid participate in the European Inter-TSO Compensation Scheme. (This relates to Objective B – the efficient, economic and co-ordinated operation of the National Electricity Transmission System).
BritNed Development Limited	Yes	We agree for the reasons stated in the Assessment Consultation document.
National Grid	Yes	National Grid firmly believes that the proposed solution is a proportionate response that can be implemented without undue delay.
RWE Supply & Trading GmbH	Yes	-
Gazprom Marketing & Trading Ltd.	Yes	The P278 Workgroup suggested an alternative option to the current proposal: i.e. registering Trading Units to aggregate BM units on interconnectors. The impact of this action would be minimal (a 10% reduction in metered volumes). Furthermore, the fact that no BSC party actually registered a Trading Unit for interconnector BM units means that the commercial advantages in doing so are minimal compared to the administrative / operational costs.
EDF Trading Ltd	Yes	We do not see any alternative modifications that better promotes the Objectives.
E.ON	Yes	-
IBM (UK) Ltd.	Yes	-

Respondent	Response	Rationale
(for and on behalf of ScottishPower)		
EDF Energy	No	In the absence of more detail about the Inter-TSO Compensation Scheme, which is apparently confidential to European Transmission System Operators, and more detail on the extent to which European and GB Policy seeks to support cross-border trading through implicit subsidy rather than just the removal of inefficient barriers to trade, we cannot be confident that there is no alternative modification that would better facilitate the BSC Objectives.

Question 3: Do you agree with the Workgroup that the draft legal text delivers the intention of P278?

Summary

Yes	No	Neutral/No Comment
8	0	2

Responses

Respondent	Response	Rationale
National Grid Interconnectors Limited (NGIC)	-	-
SONI Ltd (System Operator for Northern Ireland)	Yes	The draft legal text provides a detailed intention of P278.
BritNed Development Limited	-	No comment at this time.
National Grid	Yes	The proposed legal text appears to meet the proposal's objective, namely no longer adjusting metered volumes for Interconnector BM Units whilst ensuring recovery of GB losses from non Interconnector BM Units.
RWE Supply & Trading GmbH	Yes	-
Gazprom Marketing & Trading Ltd.	Yes	-
EDF Trading Ltd	Yes	We agree that the legal text delivers the intentions of the proposal.
E.ON	Yes	It appears appropriate.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
EDF Energy	Yes	-

Question 4: Do you agree with the Workgroup's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
9	0	0	1

Responses

Respondent	Response	Rationale
National Grid Interconnectors Limited (NGIC)	Yes	No changes to Interconnector systems or Access Rules required under P278.
SONI Ltd (System Operator for Northern Ireland)	Yes	SONI do not require any lead time for this proposal to be implemented and therefore the earliest viable Implementation Date is suitable.
BritNed Development Limited	Yes	We would not be opposed to the earlier implementation date if Ofgem wished to implement this ahead of P277.
National Grid	Conditional	Given that one aim of the proposal is to ensure the efficient discharge of its licence obligations, National Grid would seek implementation of the proposal as early as possible. We believe it would be inappropriate to delay a decision on, or the implementation of P278 for reasons relating to the P277 proposal. Likewise, were it feasible to implement the proposed solution earlier than the November scheduled release, then that option should also be considered by the Authority.
RWE Supply & Trading GmbH	Yes	-
Gazprom Marketing & Trading Ltd.	Yes	The implementation date of the 1st of November 2012 is in line with Elexon software releases, hence it is deemed acceptable. On the other hand, the change in TLMs after the October contract rounds is not ideal. Therefore, Elexon should clearly communicate to BSC parties (and suppliers in particular) the upcoming change and present a more detailed analysis on the increased cost to them. This would enable suppliers to better structure their commercial offers.

Respondent	Response	Rationale
EDF Trading Ltd	Yes	The Implementation date would give affected parties sufficient time to make the necessary system changes.
E.ON	Yes	These seem sensible, clearly the latter date would align with P277 which might save central costs if both modifications were approved by the Authority (although we do not support P277). However we agree that implementing P278 should take place as soon as practical to advance EU compliance and not be delayed to wait for any decision on P277.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
EDF Energy	Yes	Noting our misgivings about whether the proposal is the best method to resolve the underlying issues, the notice period of about 6 months is sufficient to make any changes to our systems and processes that are necessary.

Question 5: Do you have any further comments on P278?

Summary

Yes	No
1	9

Responses

Respondent	Response	Comments
National Grid Interconnectors Limited (NGIC)	No	-
SONI Ltd (System Operator for Northern Ireland)	No	-
BritNed Development Limited	No	-
National Grid	No	-
RWE Supply & Trading GmbH	No	-
Gazprom Marketing & Trading Ltd.	No	-
EDF Trading Ltd	No	-
E.ON	No	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	No	-
EDF Energy	Yes	*See Detailed Response in Appendix 1*

Interpretation of Relevant EC Regulations

The European Regulations EC 714/2009 'conditions for access to the network for cross-border exchanges in electricity' and EC 838/2010 'laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging', which the proposal seeks to satisfy for the GB arrangements, are in themselves not sufficiently detailed to be sure that the proposed change is necessary or desirable.

The proposer's argument appears to rely on European Regulation EC 714/2009 brought into force by the European 3rd Energy Package implemented on 3 March 2011. Specifically:

Article 14 section 3 states:

> "3. When setting the charges for network access, the following shall be taken into account:
>
> (a) payments and receipts resulting from the inter-transmission system operator compensation mechanism;
>
> (b) actual payments made and received as well as payments expected for future periods of time, estimated on the basis of past periods."

Section 5 states:

> "5. There shall be no specific network charge on individual transactions for declared transits of electricity"

Regulation EC 838/2010 sets out rules for the Inter-Transmission System Operator Compensation scheme (ITC), but only at a high level. Details of exactly how the scheme operates are apparently confidential to the European Transmission System Operators, which appears contrary to the intent of EC 714/2009 Article 14 section 1:

> "1. Charges applied by network operators for access to networks shall be transparent, take into account the need for network security and reflect actual costs incurred…"

Section 7 of the introduction to regulation EC 714/2009 also seeks transparency in the tasks undertaken by the European Network of Transmission System Operators for Electricity (ENTSOE).

Section 4.3 of EC 838/2010 states "ENTSO for Electricity shall be responsible for carrying out the calculation referred to in point 4.2 [marginal amount of losses due to transits] and shall publish this calculation and its method in an appropriate format. This calculation may be derived from estimates for a number of points of time during the relevant period." This information should be provided to the workgroup and reported to BSC participants.

The proposer makes several interpretations that are not absolutely clear in the regulations:

1) The proposer assumes that the allocation of GB transmission losses is necessarily a "network charge" for which it as Transmission System Operator (TSO) is responsible. In GB, transmission losses are not currently "network charges" levied by the TSO, but are allocated directly under the Balancing and Settlement Code (BSC) to the delivery and offtake flows of physical system users. It is these flows

that are mainly responsible for creating the losses. While the GB TSO is responsible under its licence for there being a BSC, it is not directly responsible for the detailed contents set out in the BSC. Given the interaction of the ITC with the arrangements for charging losses in GB, which are not managed by the GB TSO, National Grid Electricity Transmission (NGET) should have raised the issue of the ITC and its interaction with the BSC much earlier. There may be an argument that the allocation of transmission losses is not a TSO "network charge" at all in GB.

References in the regulations to costs incurred by a TSO do not apply to NGET in the case of transmission losses. NGET has an incentive scheme, but is not directly subject to the cost of losses on the GB Transmission System, other than those arising from the ITC itself. In relation to losses, it might be expected that any amounts that NGET receives or pays through the ITC scheme should be settled with and by BSC users who pay for losses, not as a component of Network Infrastructure charges that are settled in different proportions.

A more significant change to the GB arrangements to give the TSO responsibility for transmission loss charging would resolve these inconsistencies. However, this would not obviously be desirable or proportionate.

Note that EC 714/2009 Article 18 paragraph 5 in respect of the ITC includes a statement that "the Commission shall: (a) ensure that the Guidelines provide the minimum degree of harmonisation required to achieve the aims of this Regulation and do not go beyond what is necessary for that purpose…"

2) Regulation EC714/2009 Article 14 section 5 states: "There shall be no specific network charge on individual transactions for declared transits of electricity"

The proposer appears to have interpreted this to mean that there should be no contribution to the cost of GB transmission losses by individual cross-border flows.

This interpretation contains a number of assumptions:

- That the expression "no specific network charge on individual transactions" includes those "network charges" that are currently applied generally to all boundary flows including cross-border flows, and not specifically to cross-border flows. An alternative interpretation is that there should be no charges specifically for cross-border flows (eg. special charges for imports and exports, not faced by other delivery and offtake flows), which is the case already.
- EC 714/2009 Article 2(e) defines a "declared transit" to mean "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 simulataneous corresponding take-up of the electricity will take place;"

Therefore "no specific charge on individual transactions for declared transits" is a very specific situation, for which there is already no specific charge in GB and therefore it could be argued GB is already compliant. GB has non-specific charges for cross-border flows that are fully aligned with the charges for other flows at the boundaries of the GB system, and not in any way specific to cross-border flows.

3) The details of the ITC are unclear, but in simple terms we think it works something like this:

a) The marginal loss in each system due to transit flows is estimated using a load-flow model, by comparing calculated losses with actual flows with a situation where transit flows are removed. It is not clear how transit flows are identified or removed. For GB there is no explicit means to identify a transit flow, and we would not expect the TSO to be aware of the individual transactions behind given nominated cross-border flows. We assume that cross-border flows in the "minority" direction are taken to be associated with a transit flow and somehow cancelled with an equivalent volume in the "majority" direction. However, perhaps all cross-border flows are simply set to zero.

b) The TSO for each system receives the estimated cost (or pays the estimated saving) associated with transit flows from (or to) a central ITC fund.

c) The central fund is cleared by payments from (or to) participating TSOs in proportion to their systems' proportions of the aggregate cross-border flows, disregarding direction. EC 838/2010 Annex Part A 6.1: "The transmission system operators shall contribute to the ITC fund in proportion to the absolute value of net flows onto and from their national transmission system as a share of the sum of the absolute value of net flows onto and from all national transmission systems". The time resolution for which this aggregation is performed is not clear, and it is not absolutely clear whether netting is at individual interconnectors or, more likely at a national level.

   Countries with large net cross-border flows - those importing or exporting large amounts - will obviously contribute more. This appears to be essentially a non-cost-reflective sharing of certain costs between countries according to levels of net import and export. It is not clear that this will necessarily promote cross-border trade. Might the additional non-cost reflective costs for some countries actually act in the opposite direction, deterring cross-border trade? Is that the reason why explicit or implicit subsidy might be required, in the form of preferential charges for interconnector flows?

The proposer has assumed this set of ITC payments is an alternative in the case of cross-border flows for contributions by delivery and offtake flows under the BSC to the cost of losses in GB. It is not clear this is the case:

The ITC appears to cover the cost (or benefit) of hosting transit flows, not costs due to cross-border flows themselves. It appears to charge this on the basis of net inflow and outflow. NG appear to settle the net GB amount in TNUoS charges levied on a completely different basis to (other) losses (noting that GB interconnectors no longer pay TNUoS charges). This sharing of the cost of transit between the originators and end-user countries does not seem to relate to the allocation of the costs of losses themselves within countries. Under the ITC, a cross-border flow that isn't a transit is likely to result in a charge for a country, and one that is a transit could result in a charge or a benefit depending on its effect. There is no suggestion that these charges or benefits should be levied specifically on cross-border flows or transits themselves, quite the contrary, so it is not obvious that the existing GB allocation that shares between all deliveries and offtakes needs to change.

The regulations simply require that the ITC amounts should be “taken into account” in setting national “network” charges. This could be taken to mean that no more than an adjustment to the losses paid for by users, in order to avoid double counting, is required.

During discussion at the workgroup, there was discussion of whether any special meaning should be given to the term “hosting” used in relation to “hosting cross-border flows” in the regulations, and hence the costs and charges associated with such flows. In particular, the context sometimes suggests it relates to facilitating a transit across a system, but in other places it relates to facilitating any cross-border flow, even if the energy is generated or used within the relevant system, and the relevant users might expect to contribute to the system costs like any other user.

GB Balancing/Trading Point and Losses

Trades made within the GB market are effectively made at the notional balancing point to which all volumes and most charges are referenced. A non-physical trader can buy and sell at that notional point without exposure to physical volume only because the physical participants ultimately at either end of non-physical trades are all subject to volume, costs and risks at the same reference point. For a non-physical trader, the arrangements are not complex. If some physical volumes are subject to different adjustments to the reference point, such as interconnector users, the concept of a common trading point is undermined because participants are no longer trading and competing on equal terms.

Interconnector flows represent physical flows to or from the GB system and the GB market, and should as far as possible be treated in the same manner as equivalent boundary flows by GB generators and suppliers. There should be clearer evidence of the wider benefits for European market integration and security of supply before positive discrimination in favour of interconnector usage over other users of the GB system is implemented.

We also note that separate and ostensibly unrelated proposals to change the relative allocation of BSUoS between cross-border trades and other deliveries and offtakes, and between delivery and offtake itself, would have the effect if implemented of changing the implied reference “point” for GB wholesale trades. If such a fundamental change is contemplated, it might also be sensible to consider changing the reference point for the charging of transmission losses, from the approximate midpoint of delivery and offtake, to the same point as chosen for BSUoS charging. Although the reference point is largely arbitrary, it is important that everyone understands where it is well in advance, and that it remains relatively stable, to inform efficient forward trading and reduce trading uncertainty.