

September 2002

**INITIAL ASSESSMENT OF MODIFICATION  
PROPOSAL - P97**

**Modification to enable ELEXON to prepare for the  
implementation of British Electricity Trading and  
Transmission Arrangements (BETTA)**

**Prepared by ELEXON Limited**

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Name	Organisation
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Each BSC Agent	Various
The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various
energywatch	energywatch
Core Industry Document Owners	Various

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## 1. EXECUTIVE SUMMARY

Modification Proposal P97 'Modification to enable ELEXON to prepare for the implementation of British Electricity Trading and Transmission Arrangements (BETTA)', included in Annex 1, was submitted on 30 August 2002 by Powergen UK plc.

P97 seeks to modify the Balancing and Settlement Code to authorise ELEXON to provide or procure assistance to the Authority in connection with the development of the Ofgem/DTI BETTA project.

P97 does not specify the nature or scope of changes to the Code, Code subsidiary documents and supporting systems that will be required as a result of the BETTA Project. These will be subject to separate Modifications and Change Proposals

An initial assessment of P97 has identified the following potential areas of impact and issues to be considered.

- There are potential impacts upon ELEXON systems and processes to enable separate cost accounting and a different initial allocation of BETTA costs, to a sub-set of BSC Parties. There are also potential impacts on those BSC Parties; on Scottish Electricity Settlements Ltd. (SESL) if there is a requirement for Scottish market share data; and on the Balancing and Settlement Code itself.
- The main potential issues to be considered during the progression of this Modification Proposal through the Modification Process are:
  - the possibility of changed Applicable BSC Objectives as a result of a recent consultation by Ofgem, relating to enabling ELEXON to work on BETTA;
  - the duration of any revised ELEXON vires in relation to BETTA work;
  - the views of Ofgem as already expressed in relation to any potential Modification Proposal enabling ELEXON to work on BETTA;
  - the management and reporting of any ELEXON work on BETTA;
  - how the costs that ELEXON incurs in undertaking any work on BETTA should be funded, and
  - Identification of any other legal issues.

Modification Proposal P97 is an enabling Modification, permitting ELEXON to undertake work in connection with implementing BETTA. As noted above, the direct impact of implementing this Modification is mainly limited to Code changes and processes to separately account for and fund any work ELEXON undertakes on BETTA. This Assessment does not consider the impact of the BETTA development work that ELEXON may undertake as a consequence of this Modification were it to be implemented.

**The Panel is invited to:**

- **NOTE the results of the Initial Written Assessment;**
- **DETERMINE that Modification Proposal P97 should be submitted to an Assessment Procedure in accordance with section F2.6 of the Code;**

- **AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 14 November 2002;**
- **DETERMINE that the Assessment Procedure should be undertaken by the Governance Standing Modification Group; and**
- **AGREE any refinement to the standard Modification Group Terms of Reference.**

## **2. INTRODUCTION**

This Report has been prepared by ELEXON Ltd. on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

An electronic copy of this document can be found on the BSC website, at [www.elexon.co.uk](http://www.elexon.co.uk)

## **3. DESCRIPTION OF THE MODIFICATION PROPOSAL**

A copy of the Modification Proposal, as submitted by its proposer, can be found at Annex 1 to this report.

The Modification Proposal proposes that ELEXON be authorised to provide or procure assistance to the Authority in connection with the development of BETTA (British Electricity Trading and Transmission Arrangements). Currently there are legal constraints on the activities that ELEXON may undertake. In particular, Section C1.2.2 of the Code states that ELEXON, being the BSCCo, "shall not undertake any business or activity other than as provided for in the Code". Currently there is no provision in the Code that would permit ELEXON to assist with the development of BETTA.

The Modification Proposal P97 proposes the following.

- ELEXON to be authorised to provide or procure assistance to the Authority in connection with the development of the BETTA project, primarily in the following areas:
  - developing the principles of a balancing and settlement code for Great Britain (a GB BSC);
  - the preparation of a draft GB BSC and GB BSC subsidiary documentation;
  - negotiation for the provision of services for the GB BSC, equivalent to those of BSC Agents; and
  - planning and preparing for the transition to the GB BSC.
- Approval to be sought by ELEXON from the Authority for each area of work proposed.
- ELEXON authorised to request services from BSC Agents; and to use and disclose BSC data and systems for the purpose of assisting the Authority for the purposes of BETTA development.
- ELEXON ceases to be authorised to provide or procure this assistance beyond 31 March 2005. (The planned BETTA implementation date is 1 April 2004.)
- The BSC Panel to review scope of work and levels of expenditure through regular reporting. Initially it is proposed that ELEXON publish a planned schedule of work and an annual budget for BETTA development work.

- The funding of BETTA development work to be clearly separate. Initial funding would be by BSC Parties (or BSC Parties with sister or parent companies) serving the Scottish electricity supply market in proportion to a 'snap-shot' of current market shares by volume. Final funding would be developed under the GB BSC. If BETTA were abandoned, original funders would bear the full costs of BETTA development incurred to that date.

It should be noted that Ofgem has recently completed (22 August 2002) an initial consultation<sup>1</sup> on modifying NGC's transmission licence to change the Applicable BSC Objectives. This change has been proposed by Ofgem to enable "the Authority to conclude that a particular BSC Modification Proposal to enable ELEXON to participate in the implementation of BETTA would better facilitate the achievement of the modified Applicable BSC Objectives". The issues that this proposed change raises in relation to P97 are outlined in Section 12 of this Initial Written Assessment.

#### 4. IMPACT ON BSC SYSTEMS AND PROCESSES

The following table lists the potential impact on BSC systems and processes identified by this initial assessment of P97. It should be noted that only an indication of potential impact is given. The Assessment Procedure should confirm the impacts.

BSC System / Process	Potential Impact of Proposed Modification
Clearing, Invoicing and Payment	Separate cost accounting for and funding of ELEXON BETTA development costs and a different BSC Party funding base under the P97 proposal that initial funding should be by "BSC Parties (or BSC Parties with sister or parent companies) serving the Scottish electricity supply market".

#### 5. IMPACT ON OTHER SYSTEMS AND PROCESSES USED BY PARTIES

BSC Parties may be impacted by revising funding arrangements for any BETTA work that ELEXON undertakes.

There is a potential need for data relating to the Scottish market from Scottish Electricity Settlements Ltd, as the Modification Proposal suggests this as a potential method of allocating BETTA costs amongst a subset of BSC Parties.

These impacts will be subject to confirmation during the Assessment Procedure.

<sup>1</sup> ELEXON and the introduction of BETTA, An Ofgem Initial Consultation on a Modification to NGC's Transmission Licence, July 2002.

## 6. IMPACT ON DOCUMENTATION

### a) Impact on Balancing and Settlement Code

The potential impacts on the Balancing and Settlement Code are listed overleaf. It should be noted that only an indication of potential impact is given. The Assessment Procedure should confirm the impacts.

BSC Section	Potential Impact of Proposed Modification
C: BSCCo and its Subsidiaries	ELEXON to be authorised to provide and procure assistance to the Authority in connection with BETTA.
D: BSC Cost Recovery and Participation Charges	BETTA development costs to be separately identified and funded.
E: BSC Agents	Potential change to authorise ELEXON to request services from BSC Agents for the purposes of assisting the Authority with BETTA development.
X: ANNEX X-1 General Glossary	Consequential additions covering BETTA may be needed.
X: ANNEX X-2 Technical Glossary	Consequential additions covering BETTA may be needed.

### b) Impact on Code Subsidiary Documents

None identified to initiate ELEXON support to the BETTA Project. This will be subject to confirmation during the Assessment Procedure.

### c) Impact on Core Industry Documents

None identified at this stage. This will be subject to confirmation during the Assessment Procedure.

## 7. IMPACT ON OTHER CONFIGURABLE ITEMS

None identified at this stage. This will be subject to confirmation during the Assessment Procedure.

## 8. IMPACT ON ELEXON

The potential impacts on ELEXON are listed below. It should be noted that only an indication of potential impact is given. The Assessment Procedure should confirm the impacts.

Area of Business	Potential Impact of Proposed Modification
ELEXON Systems	Separate cost accounting and cost allocation for BETTA development costs.
ELEXON Procedures	Separate cost accounting for BETTA development costs.
Other (e.g. costs, staffing, etc.)	The Modification enables ELEXON to undertake BETTA development as approved by the Authority. (BETTA development itself will incur costs and may require extra resources.)

## 9. IMPACT ON FINANCIAL ARRANGEMENTS AND BUDGET

There will be direct costs arising from this Mod incurred in developing separate accounting.

As P97 is a Mod enabling ELEXON to undertake BETTA development work. Should such work proceed, consequential costs will be incurred.

## 10. IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

The potential impacts on BSC Agent contractual arrangements are listed below. It should be noted that only an indication of potential impact is given. The Assessment Procedure should confirm the impacts.

BSC Agent Contract	Potential Impact of Proposed Modification
Logica (BMRA, CRA, CDCA, SAA, ECVA, TAA(CVA))	P97 enables ELEXON BETTA development so has no direct impact other than the cost of ordered services for assessing P97. (The consequences of BETTA development involve changes to BSC Agent and possibly other contracts.)
Logica EPFAL (FAA)	As above.
Logica ESIS (TAA(SVA))	As above.
Cap Gemini, Ernst & Young (SVAA)	As above.
PwC (BSC Auditor, Certification Agent)	As above.
EASL (Teleswitch Agent, Profile Administrator)	As above.



## 11. PROCESS AND TIMETABLE FOR PROGRESSING THE PROPOSAL

ELEXON recommends that this Modification Proposal be submitted to the Assessment Procedure. The Assessment Report addressing the issues given in Section 12 and including consultation responses should be presented to the Panel at their meeting on 14 November 2002.

ELEXON recommends that P97 be submitted to the Governance Standing Modification Group as it concerns the vires of ELEXON. In view of the potential need for data on Scottish market shares or other information relating to the Scottish market, it is proposed that Scottish Electricity Settlements Ltd (SESL) be invited as an observer to this Modification Group when it considers P97.

Ofgem has stated in its recent consultation on changes to NGC's transmission licence that "there is work required to implement BETTA that only ELEXON, through its contracts with service providers, can undertake."<sup>2</sup> Ofgem also stated that it was "currently of the view that this work probably needs to start towards the end of 2002"<sup>3</sup>. Therefore, it is important that assessment of this Modification is progressed quickly and that any Alternative Modification is identified early in the Assessment Procedure. As a 1 month Assessment Procedure is not considered practical in view of the issues to be considered (see Section 12 below), ELEXON is recommending a 2 month Assessment Procedure. In view of this timetable, the importance of the first Modification Group meeting in particular in progressing the process should be noted.

## 12. ISSUES

The following issues will need to be considered and addressed in progressing P97 through the Assessment Procedure.

- There is potential for the Applicable BSC Objectives to be changed during the progression of this Modification Proposal as a result of a recent Ofgem consultation<sup>4</sup> related to enabling ELEXON to undertake work on BETTA. Therefore, it will be necessary to manage the assessment of this Modification Proposal against the prevailing Applicable BSC Objectives, recognising that these may change.
- The duration of any revised ELEXON vires in relation to BETTA work, particularly in relation to the planned implementation date of BETTA is an issue to consider. In particular, whether any limit should be fixed in time, as suggested by the Modification Proposal P97, or linked to the out-turn BETTA implementation itself.
- Ofgem has previously expressed views in relation to the criteria and other aspects that any proposed Modification enabling ELEXON to work on BETTA should meet. The extent to which the Modification Proposal or any alternative is consistent with these, or any revised views, should be assessed.
- The management and reporting of any ELEXON work on BETTA, including the role of the BSC Panel and ELEXON Executive will need to be considered, noting that Ofgem has previously expressed views on this point, and that existing reports address how obligations under the BSC are being discharged.

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<sup>2</sup> Extract from the Summary in the Ofgem initial consultation "ELEXON and the Introduction of BETTA – An Ofgem initial consultation on a modification to NGC's Transmission Licence", published July 2002

<sup>3</sup> Paragraph 3.2 of the same consultation

<sup>4</sup> Same consultation. This consultation closed on 22 August 2002.

- The Modification Proposal proposes a separate and different initial allocation of those ELEXON costs arising from its BETTA work. It proposes that such costs should initially be allocated to those BSC Parties with interests in the Scottish electricity supply market. It will be necessary to consider the practicalities and costs of implementing this proposal, including appropriate sources of data on which to base an apportionment of costs, and the precise nature of such apportionment.
- Identification of any other legal issues.

## ANNEX 1 – MODIFICATION PROPOSAL

<b>Modification Proposal</b>	<b>MP No: 97</b> (mandatory by BSCCo)
<b>Title of Modification Proposal</b> (mandatory by proposer): Modification to enable ELEXON to prepare for the implementation of British Electricity Trading and Transmission Arrangements (BETTA)	
<b>Submission Date</b> (mandatory by proposer): 30 August 2002	
<b>Description of Proposed Modification</b> (mandatory by proposer): <p>This proposal authorises ELEXON to provide or procure assistance to the Gas and Electricity Markets Authority (the Authority) in connection with the development of the BETTA project, primarily assistance in:</p> <ul style="list-style-type: none"> <li>• developing the principles of a balancing and settlement code for Great Britain (a GB BSC);</li> <li>• the preparation of a draft GB BSC and code subsidiary documents for the GB BSC;</li> <li>• the negotiation of arrangements for provision of services for the GB BSC equivalent to those BSC Agents;</li> <li>• planning and preparing for the transition (from the existing arrangements in England and Wales and in Scotland) to and introduction of a GB BSC.</li> </ul> <p>For each area of work proposed to be undertaken approval would be sought from the Authority. ELEXON would be able to request services from BSC Agents, and use and disclose BSC data and systems for purposes of providing assistance to the Authority. As this proposal is a transition measure ELEXON would not be permitted to carry out BETTA development work beyond 31 March 2005.</p> <p>The BSC Panel would have the opportunity to review the scope of work and levels of expenditure to help provide assurances to the industry that ELEXON's BETTA work is not prejudicing their ability to satisfy their existing BSC obligations supporting operations in England and Wales. This would be achieved through regular progress and financial reports to the BSC Panel. As soon as is reasonably practicable following approval of this modification ELEXON would publish a schedule of work and an annual budget for BETTA development work. Budgets for subsequent years would be included in the normal annual business planning process. At least every other month ELEXON would be required to report to the BSC Panel on the progress of BETTA development work, actual expenditure and variances against budget.</p> <p>BETTA development work would be accounted for separately and a separate 'funding pot' established. Initial funding would be by BSC Parties (or BSC Parties with sister or parent companies) serving the Scottish electricity supply market in proportion to a 'snap-shot' of current market shares by volume. This data could be provided by Scottish Electricity Settlements Limited or based on the most recent competitive market survey data collated from time to time by the Authority.</p> <p>It is anticipated that this initial funding would ultimately be recovered over a number of years through a charging mechanism developed under the GB BSC. This might involve a rebate</p>	

<b>Modification Proposal</b>	<b>MP No: 97</b> (mandatory by BSCCo)
<p>mechanism to the original funding parties similar to that specified for NETA costs outlined in Section D of the BSC. In the unlikely event that the BETTA project was to be abandoned the original funders would bear the full costs of any BETTA development that had been incurred to that date. This protects companies serving the England and Wales market from an unreasonable cost burden, which simply arose from the desire to extend 'NETA type' trading arrangements to Scotland (a market in which they may or may not have an interest).</p>	
<p><b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> (mandatory by proposer):</p> <p>In fulfilling the current BSSCo role, ELEXON is limited to providing and procuring resources and services to support the BSC in the England and Wales electricity market. This proposal will enable ELEXON to formally carry out initial preparatory work in connection with the BETTA project, whilst ensuring BSC Parties solely generating or supplying electricity in England and Wales are not required to provide the initial funding for such work.</p> <p>Through separate ELEXON accounting and budgeting a framework is created within the BSC to ensure that costs can, at a future date, be appropriately targeted at parties that will ultimately benefit from the introduction of BETTA.</p>	
<p><b>Impact on Code</b> (optional by proposer):</p> <p>Sections C and D</p>	
<p><b>Impact on Core Industry Documents</b> (optional by proposer):</p> <p>Not known</p>	
<p><b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> (optional by proposer):</p>	
<p><b>Impact on other Configurable Items</b> (optional by proposer):</p>	
<p><b>Justification for Proposed Modification with Reference to Applicable BSC Objectives</b> (mandatory by proposer):</p> <p>This proposal has been put forward in anticipation of a forthcoming amendment to the Applicable BSC Objectives under NGC's Transmission Licence, which would specifically allow ELEXON to carry out preparatory work for BETTA. Nevertheless existing Applicable BSC Objectives c and d also apply:</p> <p>BETTA further promotes competition in the generation and supply of electricity across a unified GB market. Without this proposal ELEXON would be prevented from carrying out BETTA development work delaying the anticipated realisation of such benefits. If the BETTA project were not to go</p>	

<b>Modification Proposal</b>	<b>MP No: 97</b> (mandatory by BSCCo)
<p>ahead the suggested 'default' funding arrangements targeted at companies currently operating in Scotland mean BSC Parties solely generating and/or supplying electricity in England and Wales would face no additional costs, thereby helping to maintain their relative competitiveness in that market.</p> <p>The proposed separate accounting and budgeting for BETTA development work will ensure costs are transparent to all BSC Parties. This will enable BSC Parties to both monitor costs and be confident that ELEXON activities relevant to the England and Wales market are not cross-subsidising BETTA work. This improved management should help promote efficiency in the administration of the balancing and settlement code.</p>	
<b>Details of Proposer:</b> <p style="margin-left: 40px;"><b>Name:</b> Peter Bolitho</p> <p style="margin-left: 40px;"><b>Organisation:</b> Powergen UK plc</p> <p><b>Telephone Number:</b> 024 7642 5441</p> <p><b>Email Address:</b> <a href="mailto:peter.bolitho@pgen.com">peter.bolitho@pgen.com</a></p>	
<b>Details of Proposer's Representative:</b> <p style="margin-left: 40px;"><b>Name:</b> Peter Bolitho</p> <p style="margin-left: 40px;"><b>Organisation:</b> Powergen UK plc</p> <p><b>Telephone Number:</b> 024 7642 5441</p> <p><b>Email Address:</b> <a href="mailto:peter.bolitho@pgen.com">peter.bolitho@pgen.com</a></p>	
<b>Details of Representative's Alternate:</b> <p style="margin-left: 40px;"><b>Name:</b> Christiane Sykes</p> <p style="margin-left: 40px;"><b>Organisation:</b> Powergen UK plc</p> <p><b>Telephone Number:</b> 024 7642 5441</p> <p><b>Email Address:</b> <a href="mailto:christiane.sykes@pgen.com">christiane.sykes@pgen.com</a></p>	
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