

## Assessment Consultation Responses: P270 'The Application of Line Loss Factors to GSPs that are not Transmission-interconnected'

**Consultation issued on 17 May 2011**

We received responses from the following Parties

Company	No BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
SmartestEnergy	1/0	Supplier/ consolidator/ trader
TMA Data Management Ltd	0/1	NHHDC, NHHDA, HHDC and HHDA
CE Electric UK	2/0	LDSO
Electricity North West Limited	1/0	Distributor
RWE Supply & Trading GmbH	10/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator/ BSC Agent/ Party Agent/ Distributors
E.ON UK	6/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator
UK Power Networks	5/0	Distribution Network Operator
IBM (UK) Ltd (for and on behalf of ScottishPower)	4/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator
EDF Energy	10/0	Supplier/ Generator/ Trader/ Consolidator/ Exemptable Generator/ Party Agent
National Grid	1/0	Transmission Company
Western Power Distribution	4/0	LDSO

What stage is this document in the process?

**01** Initial Written Assessment

**02** Definition Procedure

**03** Assessment Procedure

**04** Report Phase

## Question 1: Would the Proposed Modification P270 help to achieve the Applicable BSC Objectives?

### Summary

Yes	No	Neutral/Other
5	6	-

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	It would be more efficient and fair on the grounds that all generation connected to a distribution network should be given an appropriate LLF.
TMA Data Management Ltd	No	-
CE Electric UK	Yes	<p>We agree with the views expressed in the change proposal, that traditional GSPs effectively represent an infinite energy source to the DNO, but GSPs for offshore generation connected via a Distribution System are fundamentally different and effectively drive energy across a Distribution System, either causing or reducing losses.</p> <p>Not allocating an LLF to the offshore GSP could mean that the associated distribution losses are attributed to other customers on a shared basis and potentially create inadvertent cross subsidy. Not implementing P270 could also potentially put large on-shore generators who have an LLF at a competitive disadvantage compared with off-shore generators who do not.</p> <p>Applying an LLF to Off-shore connections would seem to remove this different treatment of off-shore and on-shore generation and the associated potential cross-subsidies across customers that might result from not applying P270. P270 better facilitates BSC objective c:</p> <p>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;</p>
Electricity North West Limited	Yes	The key justification for this proposal is that it would remove a distortion in the way that losses are allocated to users of the Distribution System under the LLF mechanism, and that this would therefore provide more appropriate cost signals regarding the siting and operation of generators. The proposal thus better

Respondent	Response	Rationale
		<p>meets applicable objective c), promoting effective competition in the generation and supply of electricity.</p> <p>The modification would also promote more efficient network design solutions as losses would properly be taken into account when assessing the merits of an embedded solution (using Distribution Systems) versus a Transmission-only solution for connecting otherwise remote transmission assets such as offshore networks. Thus, the modification would better meet applicable objective a), the efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence.</p>
RWE Supply & Trading GmbH	No	<p>We do not believe that it is appropriate for distribution losses to be recovered through transmission losses. If implemented P270 will increase the overall cost of transmission losses recovered from all users of the transmission system and reduce the distribution losses currently recovered from the relevant distribution network users. P270 therefore represents a transfer of value from distribution customers to transmission users.</p> <p>Furthermore we believe that it may be discriminatory to treat GSPs associated with offshore transmission in a different way from other onshore GSPs since there do not seem to be any justified grounds for such differential treatment as far as the settlement arrangements are concerned. On this basis the proposed modification does not better meet Objective C.</p>
E.ON UK	No	<p>On balance P270 appears neutral with regard to Objective (a). Potential benefits under (b) from increased visibility of losses to the TSO are tenuous; it seems unlikely that P270 would have a material impact on future network design/connection decisions. We see the main impact of P270 as being detrimental under Objective (c), plus to a lesser extent (d).</p> <p>Physically nothing may have changed with the introduction of the OFTO arrangements, but some GSPs are now 'different to others' in that offshore generation connected to an offshore transmission 'spur' may have very little demand directly associated. However as observed by the Group, some or all of the flow entering the Distribution System may be used there, making it hard to justify treating such a GSP differently to others. Also as the consultation notes, though P270 argues that such an offshore GSP effectively drives energy across a Distribution System</p>

Respondent	Response	Rationale
		<p>in one direction only, either causing or reducing Distribution losses, this depends on the interaction with the other Distribution System elements. Thus it seems more appropriate for losses to remain assigned to Distribution users via LLFs and/or the GSP GCF. More fundamentally it seems inappropriate to incorporate Distribution losses in overall Transmission losses. Treating some GSPs differently to others would also be counter to Objective (c), and add to the complexity of the BSC, thus would also not facilitate Objective (d).</p>
UK Power Networks	Yes	<p>There was a known issue of losses being created on the distribution network by generators before the introduction of OFTO arrangements which was not addressed within those arrangements. Modification P270 would apply to BSC objectives (b) &amp; (d) by bringing the BSC into conformity with parties licenses after other BSC changes have caused a conflict.</p>
IBM (UK) Ltd (for and on behalf of ScottishPower)	No	<p>ScottishPower believes that the Proposed Modification is not better than the current baseline for the following reasons:</p> <p>Objective a) Neutral</p> <p>Objective b) Neutral</p> <p>Objective c) Negative. The Modification proposes to redistribute a portion of distribution losses into the general pot of national transmission losses. These losses are then paid for by all NTS users, providing a distortion and discrimination against that class of user. Conversely, the embedded, distribution-connected users are given a financial benefit (or subsidy), which is quite clearly not an aid to overall competition. The current BSC principles correctly allocate losses to the appropriate users.</p> <p>Objective d) Neutral</p>
EDF Energy	No	<p>BSC Objective (a): There appears to be no direct impact on achievement of Transmission Licence conditions beyond that of the other BSC objectives.</p> <p>BSC Objective (b): Efficient, economic and co-ordinated operation of the national transmission system would not be better achieved by transferring a part of distribution loss so it is treated as being within transmission system loss. Including a part of distribution loss in the system operator incentive to reduce transmission loss would raise complex issues about the interaction between transmission and</p>

Respondent	Response	Rationale
		<p>distribution system operation, which are beyond the scope of this proposal. We think it very unlikely that the proposal would result in any change to network operation, or to transmission or distribution investment decisions, and certainly none in relation to existing offshore connections.</p> <p>BSC Objective (c): Competition in the generation and supply of electricity would not be better achieved by charging all transmission users for particular elements of loss on particular distribution systems, instead of distribution users. We think distribution losses should continue to be charged to distribution users within the relevant distribution system, and transmission losses to transmission users. The flow from or to transmission at "remote" GSPs is not necessarily any different in its effect on distribution losses than that at "main" GSPs. Both can be considered to affect distribution losses in a manner dependent on all the other in and out flows on the distribution network, over which the distribution operator has limited control. To single out flows at particular GSPs in the manner proposed could be considered discriminatory.</p> <p>BSC Objective (d): The proposal would add complexity to the BSC arrangements, and would therefore not promote efficiency in the implementation and administration of the balancing and settlement arrangements.</p>
National Grid	No	<p>We agree with the comments raised by the working group – moving these losses to transmission losses would effectively penalise GB Transmission System users. We also agree that this would increase complexity by treating certain GSP's differently. The proposal seems to try to resolve an issue with distribution losses incentives, rather than an issue with the BSC. We therefore don't believe the proposal better meets the Applicable BSC Objectives.</p>
Western Power Distribution	Yes	<p>It is clearly wrong that 'remote' parts of the transmission system can use parts of distribution systems to convey power to the 'contiguous' transmission system without adjustment of volumes so conveyed in respect of electrical losses that occur in distribution systems as a result of such conveyance.</p> <p>The Proposed Modification would help achieve the Applicable BSC Objectives, in particular it would promote effective competition in the generation of electricity by fairly recognising as transmission losses all electrical losses that arise in respect of generators</p>

Respondent	Response	Rationale
		connected to remote grid supply points and accessing the contiguous transmission system via distribution systems.

Question 2: Are there alternative solutions that the Modification Group has not identified, that they should consider?

### Summary

Yes	No	Neutral/Other
1	9	1

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	Mandate settlement metering to be at point of connection to the network onshore.
TMA Data Management Ltd	No	-
CE Electric UK	Not sure	Has the workgroup considered if there is a way of separating the losses on the distribution assets (that result in an LLF calculated by the distributor) from the losses on the offshore transmission assets?
Electricity North West Limited	No	None identified.
RWE Supply & Trading GmbH	No	-
E.ON UK	No	-
UK Power Networks	No	The solution proposed fits in with BSC objective (c) as it highlights an economic signal for generators to connect to a distribution network at the appropriate locations.
IBM (UK) Ltd (for and on behalf of ScottishPower)	No	-
EDF Energy	No	None at this time.
National Grid	No	In regards to amendments to the BSC, we don't believe there are any alternative solutions that should be considered.
Western Power Distribution	No	None identified

## Question 3: Would the P270 Proposed legal text deliver the Proposed solution?

### Summary

Yes	No	Neutral/Other	No response
9	0	1	1

### Responses

Respondent	Response	Rationale
TMA Data Management Ltd	Yes	-
CE Electric UK	Yes	Please see our answer to question 1.
Electricity North West Limited	Yes	The text accurately reflects the intent of the modification and is clear and relatively simple, consistent with Applicable BSC Objective d (Promoting efficiency in the implementation and administration of the balancing and settlement arrangements).
RWE Supply & Trading GmbH	Yes	-
E.ON UK	Yes	It seems adequate.
UK Power Networks	Yes	The text creates a clearer definition from which to work under with regards to BSC objectives (a) & (d)
IBM (UK) Ltd (for and on behalf of ScottishPower)	Yes	-
EDF Energy	-	<p>At K1.7.3, removal of reference to a Boundary Point leaves open the possibility that all Metering Systems "on" a distribution system, even metering between distribution systems with different owners that might not be used in settlement, should have an LLF. This would be unnecessarily burdensome. It should be made clear that only Metering Systems used for BSC Settlement require an LLF, for example by specifying "at a Boundary Point" as at present, or "at a Boundary Point or a Remote Grid Supply Point".</p> <p>Offshore or other isolated parts of the network could also in themselves be contiguous, that is the nature of a network, but would not be the part the proposed "Contiguous Transmission System" definition is seeking to identify. The concept of a "main" part of the transmission system and "remote" parts would be more explicitly described in the proposed new</p>

Respondent	Response	Rationale
		<p>definitions in Annex X-1 and X-2 if "Contiguous Transmission System" was referred to as the "Contiguous Main Transmission System".</p> <p>For historic reasons there are several different references to Line Loss Factors in Section X and its annexes, which do not aid clarity of the BSC. Table X-6 also has a definition of LLF specific to section S. Opportunity could be taken to improve this: have a general definition of Line Loss Factor, which explains how LLFs may be applied to values recorded by CVA and SVA Metering Systems connected at Boundary Points in Distribution Systems or Remote Grid Supply Points. For clarity, it might also mention that adjustments, not by means of LLF, may also be made in meter compensation, or in CDCA aggregation rules for values recorded by CVA Metering Systems. However, this may be out of scope for this particular modification proposal.</p>
National Grid	Yes	We agree the legal text meets the proposed solution.
Western Power Distribution	Yes	We believe so

Question 4: Do you believe that the P270 Proposed solution, or the legal text drafted to deliver that solution, would have any consequences not intended by the P270 Workgroup? For instance, would any GSPs fall under the P270 solution beside those intended to be captured?

### Summary

Yes	No	Neutral/Other	No response
1	6	2	2

### Responses

Respondent	Response	Rationale
TMA Data Management Ltd	Unknown	-
CE Electric UK	No	The assessment consultation appears to have captured the volumetric consequences.
Electricity North West Limited	No	The proposal has been deliberately drafted in such a way as to capture all connection points where there is an impact on distribution system losses due the activity or requirements of the connectee rather than the requirements of the distribution system itself. In other words, it is aimed at the underlying driver of



Respondent	Response	Rationale
		losses rather than just being restricted to the offshore situation, where the issue was first identified. It would therefore be appropriate to have the ability to apply an LLF to any Remote GSP (as defined by the proposed legal text). Depending on the physical network and loading arrangements such LLF might be greater, equal to or less than unity.
RWE Supply & Trading GmbH	No	-
E.ON UK	No	Not to our knowledge.
UK Power Networks	Yes	BSCP 25 (Registration of Transmission System Boundary Points, Grid Supply Points, GSP Groups and Distribution Systems Connection Points) and  BSCP 75 (Registration of Meter Aggregation Rules For Volume Allocation Units)
EDF Energy	-	We have not investigated all GSPs to identify any which might unexpectedly fall into the proposed category of "remote GSP". A possible case could be a complex or shared substation where different Grid Supply Points are connected to each other by distribution assets rather than direct connection to transmission assets. We suggest that Elexon query this with the Transmission Company and Distribution Companies.
National Grid	No	We don't, at present, anticipate any further unintended consequences of the proposed solution under P270
Western Power Distribution	No	None identified

Question 5: Would implementation of the P270 Proposed solution impact your organisation? Please detail any impacts, quantifying approximate costs and timescales.

### Summary

Yes	No	Neutral/Other
4	7	-

### Responses

Respondent	Response	Rationale
SmartestEnergy	No	-

Respondent	Response	Rationale
TMA Data Management Ltd	No	-
CE Electric UK	No	There is no impact on CE at this time as we have no offshore connections of this type, however this could change in the future.
Electricity North West Limited	Yes	P270 would restore the pre-OFTO position in terms of the calculation and application of LLFs. If P270 were not implemented there would be a direct impact on the calculation of LLFs for two EHV customers that are electrically adjacent to an existing offshore site, and a further small effect on generic LLFs due to the reallocation of losses caused by the offshore connection.
RWE Supply & Trading GmbH	No	As noted under question 1, P270 will increase the cost of losses recovered under the transmission losses scheme. This will result in a marginal impact on the cost of transmission losses.
E.ON UK	No	-
UK Power Networks	Yes	The change in legal text would then require a change in the DNO's LLF methodology and consequential amendments to Site Specific loss calculations.
IBM (UK) Ltd (for and on behalf of ScottishPower)	No	-
EDF Energy	Yes	<p>Any change to LLF values would need to be processed within internal systems in the normal manner, and would have the commercial impact that LLF changes normally have. If LLFs were recalculated according to the BSCP128 annual timetable, the additional impact should be minimal.</p> <p>Ad-hoc changes to site-specific LLFs could have more significant commercial impact, though no particular such changes directly affecting EDF Energy would be expected.</p>
National Grid	Yes	We don't however anticipate any additional costs.
Western Power Distribution	No	We do not currently have any remote parts of the transmission system that use our networks to access the main part of the transmission system. If this changed in the future we would be impacted in respect of the distribution system losses incentive and our ability to accurately set loss factors for use in settlement.

## Question 6: Do you agree with the proposed P270 implementation approach?

### Summary

Yes	No	Neutral/Other
10	-	1

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	-
TMA Data Management Ltd	Yes	-
CE Electric UK	Yes	-
Electricity North West Limited	Yes	The Assessment Report does not identify any reason why P270 should not be implemented as soon as possible after approval.
RWE Supply & Trading GmbH	Yes	-
E.ON UK	Yes	Prospective implementation is most appropriate as per our answer to Question 8; prompt implementation of the proposal with BSCP changes in the next release satisfactory.
UK Power Networks	Yes	Mod 270 reconciles the inconsistency caused by the OFTO arrangement as stated before.
IBM (UK) Ltd (for and on behalf of ScottishPower)	Yes	-
EDF Energy	-	Associated Code Subsidiary Document changes (BSCP128 in particular) should be implemented at the same time, and this may need more than 5 working days notice if relevant changes have not been agreed in advance.
National Grid	Yes	-
Western Power Distribution	Yes	Seems appropriate

Question 7: Do you agree with the group's assessment of the materiality of P270 and the identified analysis? If not, please specify why and identify any additional analysis you believe should be undertaken.

### Summary

Yes	No	Neutral/Other	No response
8	-	1	2

### Responses

Respondent	Response	Rationale
TMA Data Management Ltd	Yes	-
CE Electric UK	Yes	It should be borne in mind that off-shore generation is intended to be a growing sector and any adverse effects of current arrangements on parties are likely to be amplified over time.
Electricity North West Limited	Yes	The materiality does not appear significant in terms of overall transmission losses but can be significant for individual customers.
RWE Supply & Trading GmbH	Yes	-
E.ON UK	Yes	-
UK Power Networks	Yes	The materiality of P270 on Robin Rigg is a fair representation of the impact of an OFTO on a DNO network.
EDF Energy	Yes	The analysis of materiality concentrates on a particular site, and on central costs. More analysis of other possible sites, and impact on parties' costs might be relevant, but we are content with analysis provided.
National Grid	Yes	-
Western Power Distribution	-	We agree that the impact on LDSO losses has been properly assessed. However, we believe that analysis of the potential distortion of competition in generation (between distribution connected and remote GSP connected generators) caused by the current arrangements might further strengthen the case for this change.

Question 8: The P270 Proposed solution as presently drafted is not retrospective. Do you agree with this approach, i.e. that the P270 provisions if approved should apply prospectively? Please explain your view and give any comments on retrospection.

### Summary

Yes	No	Neutral/Other
10	-	1

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	Whilst off-shore generators should never have had the LLF removed in the first place it would be unfair to apply retroaction. It would also reduce the likelihood of acceptance by Ofgem.
TMA Data Management Ltd	Yes	-
CE Electric UK	Yes	-
Electricity North West Limited	-	P270 aims to restore the previous application of LLFs for certain sites, reflecting the fact that there has been no change to physical losses caused by the transfer into OFTO. It would therefore seem appropriate for the Modification, if approved, to apply from the effective date of the first Offshore Transmission Connection Point (ie limited retrospective application). However, there are also wider policy arguments against retrospection and, as Proposer of P270, Electricity North West will make a final decision on this aspect of the modification before the working group report is submitted.
RWE Supply & Trading GmbH	Yes	We do not support the retrospective application of P270. There are no grounds for retrospective application of the modification.
E.ON UK	Yes	While retrospective changes are generally best avoided they are at times more appropriate. However in the case of P270 the impact is not material and does not meet Ofgem's other criteria to justify retrospectivity; for instance it could have been foreseen. Thus we agree that any change should be prospective.
UK Power Networks	Yes	Whilst a retrospective solution would reduce the distortion to group correction factors we are generally not in favour of retrospective changes to the BSC.
IBM (UK) Ltd (for and on	Yes	We do not believe that the Ofgem-suggested criteria for applying retrospectivity has been met. Our opinion

Respondent	Response	Rationale
behalf of ScottishPower)		is that only certain types of changes are suited to a retrospective implementation. We do not believe this Proposed Modification falls into that category
EDF Energy	Yes	In principle, we do not support retrospective rule changes except in exceptional circumstances. Retrospective application of rule changes, particularly material ones, can reduce the incentive to understand rules and act accordingly, they create uncertainty and can undermine prudent investment decisions. In this case, we do not consider the circumstances exceptional or unforeseen and do not think retrospective application would better achieve BSC objective (c) concerning efficient competition.
National Grid	Yes	-
Western Power Distribution	Yes	Retrospection in rule changes is rarely appropriate, and we do not believe this case is an exception.

Question 9: Do you believe P270 has any benefits or disadvantages that are outside the scope of the BSC (for example an impact on losses incentives)? If so, please specify.

### Summary

Yes	No	Neutral/Other
6	2	3

### Responses

Respondent	Response	Rationale
SmartestEnergy	No	-
TMA Data Management Ltd	Unknown	-
CE Electric UK	Yes	Please note our comments on potential cross-subsidies in our answer to question 1.
Electricity North West Limited	Yes	Under the DNO Losses Incentive (CRC7 in the DNO Licence) there is an allowed adjustment to the calculation of Adjusted Distribution Losses where units entering cause an increase in distribution system losses. The adjustment applies to "Units entering the system at Entry Points (other than Entry Points which are connected to an onshore Transmission System) where the loss adjustment factor applied for settlement purposes is less than 0.997". The adjustment is intended to be (potentially) applicable at all entry points except onshore GSPs; however it is

Respondent	Response	Rationale
		<p>frustrated by the inability to apply a LLF at an offshore GSP under the current BSC baseline.</p> <p>The 2008 Offshore Transmission Embedded Transmission Working Group (OTETWG) Report made the following recommendation (Section 5.7.5):</p> <p>“OTETWG noted that under DCUSA, users of the distribution system are responsible for installing settlement metering. OTETWG recommends that current BSC and or DCUSA arrangements should be developed to ensure that a distribution licensee is able to treat offshore transmission connections consistently to other types of customer connections to the distribution system.”</p> <p>It is noted that NGET, as offshore system operator, is now a party to DCUSA and will be liable for Distribution Use of System charges in respect of offshore connections to distribution networks. The application of LLFs to such connections appears to be consistent with this policy.</p>
RWE Supply & Trading GmbH	-	-
E.ON UK	No	Not that we would be familiar with.
UK Power Networks	Yes	The benefit of P270 would give both generators & National Grid a clearer economic signal of where to connect within the DNO network through the losses incentive.
IBM (UK) Ltd (for and on behalf of ScottishPower)	-	It is quite possible that this change will in some way alleviate non-BSC problems experienced elsewhere in the market. However, as a principle, we believe that problems should be solved where they occur. That would not be the case with this change.
EDF Energy	Yes	The proposal would create interaction between incentives on the transmission company and those on affected distribution operators, but we do not think these would materially affect actual flows or losses or investment on the respective networks.
National Grid	Yes	Agree that there will be an impact of the DNO losses incentive which falls outside of the scope of the BSC.
Western Power Distribution	Yes	The proposed modification will remove a potential distortion of LDSOs' losses incentives.

## Question 10: Do you have any further comments on P270?

### Summary

Yes	No
5	6

### Responses

Respondent	Response	Rationale
SmartestEnergy	Yes	If this were the only option to resolve the issue we would support it. However, we believe that moving the settlement metering to the point of connection onshore is a better solution.
TMA Data Management Ltd	No	-
CE Electric UK	No	-
Electricity North West Limited	Yes	It should be emphasised that the proposal is aimed at assigning an LLF to the (user at) the Offshore Transmission Connection Point and not to the Offshore Generators themselves. We believe that this does not conflict with the principles set out in Ofgem's decision letter on P242 (Treatment of Exemptable Generation Connected to Embedded Offshore Transmission Networks).
RWE Supply & Trading GmbH	No	-
E.ON UK	Yes	We are somewhat concerned by consultation comments regarding Elexon's 'interpretation' of previous Ofgem decisions in relation to the OTETWG from January 2008 and subsequent Ofgem/BERR policy update. As with any BSC proposal the primary assessment of P270 must be in relation to achievement of the BSC Objectives.
UK Power Networks	No	-
IBM (UK) Ltd (for and on behalf of ScottishPower)	Yes	It is our opinion that there is no real defect within the BSC as described in the Modification Proposal. The principles currently set out in the BSC allow for the correct allocation of losses in a cost-reflective and appropriate way. The issue experienced by the Proposer is caused by problems with the application of their distribution LLF methodology and the losses incentives provided through Ofgem. The incentives should be updated to account for the introduction of the OFTO arrangements. The ENW LLF methodology should allow for the recalculation of the appropriate



Respondent	Response	Rationale
		factors to compensate for the losses removed from Robin Rigg, and that methodology should be applied as published. These are problems which are outwith the scope of the BSC, and it appears that the Modification is trying to bypass these non-BSC problems by changing the BSC.
EDF Energy	No	-
National Grid	No	-
Western Power Distribution	Yes	The P270 Proposed solution will facilitate the calculation by LDSOs of more accurate Line Loss Factors (LLFs) that will improve the accuracy of settlement.