

## P242 Consultation Responses

Consultation issued on 28 September 2009

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
SAIC Ltd. (for and on behalf of ScottishPower)	7/0	Supplier / Generator / Trader / Consolidator / Exemptible Generator / Distributor
RWE Supply & Trading GmbH	10/0	Supplier/Generator/ Trader / Consolidator / Exemptible Generator / Party Agent
Centrica	10/0	Supplier/Generator/Trader
Energy Technical & Renewable Services Ltd	1/4	Exemptible generator (current BSC party) – Burbo Licence exempt generators – GSL & GS2 Licence exempt distributor – GGC Generator (to become a BSC party shortly) – Walney
E.ON UK plc	5/0	Supplier, Generator, Trader, Consolidator, Exemptible Generator
EDF Energy	13/0	Supplier/Generator/Trader/Consolidator/Exemptible Generator/Party Agent/Distributors

Question 1: Would the Proposed Modification P242 help to achieve the Applicable BSC Objectives?

### Summary

Yes	No	Neutral/Other
4	1	0

### Responses

P242  
Assessment Consultation  
Responses

16 October 2009

Version 1.0

Page 1 of 14

© ELEXON Limited 2009

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of ScottishPower)	No	<p>While we have sympathy for the Proposers and their situation with regard to the Offshore arrangements, we have had to exclude from our assessment of this Modification those issues which are not under the purview of the BSC.</p> <p>Similarly, losses are not a BSC issue, and allowing certain generators to deal with losses in a way different to all other generators connected to the transmission system could in itself be discriminatory.</p> <p>If that is true this modification is most likely to only ever apply to these three sites, or at best a very small number of windfarms.</p> <p><b>Objective a)</b> N/A</p> <p><b>Objective b)</b> The argument made in support of Objective b (saved outage to retrofit metering) would only apply to these (by definition) small windfarms. The OFTO arrangements will mean that all offshore windfarms need to be retrofitted with metering on the platform – this activity will be planned and managed in advance. It is reasonable that the SO will be aware of this and be able to put in place economic replacement during this outage. Similarly, the Proposers have argued that there is no reasonable expectation of new developments sub-dividing into smaller, exemptable units to gain the benefits of being embedded due to their size and distance from shore. It also reasonable therefore to assume that there is little expectation of new, embedded transmission sites appearing in the future.</p> <p><b>Objective c)</b> The effective double-charging of these sites through exposure to both wider TNUoS and DUoS is, in our view, discriminatory. Elements of this Modification would help towards any Grid Code, CUSC or Charging Methodology changes to resolve this. However, removing the requirement to meter offshore means that all other offshore sites are at a severe financial (leading to competitive) disadvantage. While we applaud the high-minded principles of the Proposers to fall on their losses swords, it would better to treat all generators connected to (any part of) the transmission system equitably. To do otherwise would be to introduce further discrimination. We therefore do not believe that this Modification better facilitates this Objective.</p> <p><b>Objective d)</b> N/A</p>
RWE Supply & Trading GmbH	Yes	<p>The proposal would ensure that licence exempt offshore power stations currently treated as embedded power stations retain this treatment under the offshore transmission arrangements due to be implemented at Go Live.</p>

Respondent	Response	Rationale
Centrica	Yes	<p>It is critical for competition that any discrimination between the treatment of different generation types can be justified as due discrimination. Centrica does not believe that there is justification to treat offshore license exemptable generation that connects solely to a distribution network onshore differently to onshore license exemptable embedded generation.</p> <p>Centrica believes that Table 8 in section 5 of attachment A of the assessment report clearly outlines the case for treating offshore license exemptable generation consistent with onshore license exemptable embedded generation as well as justifying the case for different treatment to Scottish transmission connected and licensable offshore generation.</p> <p>When comparing offshore license exemptable generation to onshore license exemptable embedded generation, neither has access to the wider transmission network except through the DNO to which they connect and neither benefit's from the compensation arrangements available to a transmission connected generator in circumstances where the DNO network prevents access to the wider network.</p> <p>The only difference is that the 132kV line connecting to the DNO is, for offshore, deemed to be transmission. Being defined as transmission connected does not change any physical attributes of the generator and the system to which it connects. Centrica does not believe that this is a suitable justification for due discrimination.</p> <p>P242 would remove the undue discrimination described above and would therefore better facilitate applicable BSC objective (c).</p> <p>Centrica also supports the view that the current arrangements would provide perverse incentives for an offshore generator to avoid connecting to a distribution network even where this might be the most efficient network design. P242 would remove this perverse incentive and thus better facilitate objective (a).</p> <p>Finally, Centrica supports the view in the assessment report that outages required to retrofit meters under the baseline would be alleviated by P242. The impact of the outages would be to reduce the plant being available to NG to economically and efficiently manage the system. By not requiring these outages, P242 better facilitates objective (b).</p>
Energy Technical &	Yes	For so long as (and to the extent that) on-shore exemptable embedded generators receive embedded

Respondent	Response	Rationale
Renewable Services Ltd		<p>benefits, it is discriminatory and distorting for offshore exemptable generators, where their connections are embedded in distribution networks, to lose out on such benefits. The baseline BSC (without P242) penalises these offshore generators compared with equivalent onshore generators and distorts the incentives to connect to transmission versus distribution (BSC objective (a) and (c)); additional and unnecessary metering costs are also incurred where existing stations have provided only for onshore metering rather than offshore BSC objectives (b) and (d)).</p>
E.ON UK plc	Yes	<p>We believe that it would better meet applicable objectives a) and c). Embedded Transmission is a new concept so there is no particular precedent to follow except how this generation is treated prior to Go Live of the Offshore Transmission Arrangements. At present such generation is treated as embedded and the generator's output is measured at the point where the Offshore cable/s owned by the generator connects with the Onshore distribution network.</p> <p>Any difference between the treatment of an Onshore Exemptable Embedded Generator and an Offshore Exemptable Embedded Transmission connected Generator should reflect the difference in their circumstances. The only practical difference is that the Offshore assets previously owned by the generator will be regarded as Transmission assets and owned by an Offshore Transmission Owner (OFTO). The generator will be accessing the wider system in exactly the same manner as before. We believe that the generator should be treated in a consistent way to the present situation which is to regard it as an Exemptable Embedded Generator. However, additionally it should be recognised that at present the costs associated with the Offshore network are borne by the generator directly and not socialised across all Onshore Transmission users as would be the case under the baseline at Go Live. Therefore, it is correct that these costs should continue to be paid directly by such Embedded Transmission Generation.</p> <p>P242 provides for the appropriate commercial treatment of Exemptable Embedded Transmission Generation which solves two issues:</p> <ul style="list-style-type: none"> <li>• It ensures that these generators are not unduly discriminated against as compared with the closest analogous class of generation, namely Embedded Exemptable Generators. This</li> </ul>

Respondent	Response	Rationale
		<p>promotes fair competition and thereby better meets applicable objective c).</p> <ul style="list-style-type: none"> <li>Generators have appropriate signals against which to make the correct decision about whether to connect the Offshore Transmission assets to an Onshore distribution network or to the wider Onshore Transmission System. This helps ensure that an efficient Transmission network is built thereby better meeting applicable objective a).</li> </ul> <p>Furthermore, generators who have built projects on the assumption that they will be Exemptable Embedded Generators, will no longer see the status of these generators changing significantly at Go Live, with the associated detrimental effects on project status. This will ensure that the implementation of the OFTO arrangements does not undermine investor confidence in the GB market, thereby supporting current renewable targets and security of supply.</p>
EDF Energy		<p>There is no firm evidence that “embedded benefits” help achieve the Applicable BSC Objectives. It seems more likely to us that they represent a form of assistance to particular generators, which may act against the BSC Objectives, especially as the relevant volumes continue to increase.</p> <p>National Grid have announced at the Transmission Charging Methodology Forum an intention to review various aspects of the charging methodology in relation to small and embedded generators. This may or may not provide more evidence on the justification for “embedded benefits”, and we await the outcome of that review.</p> <p>Given this uncertainty over the impact of “embedded benefits” on BSC Objectives, it is not obvious that the proposal, which seeks to preserve these benefits in certain circumstances, can better meet the objectives. We consider that many of the benefits do not better meet BSC objectives, and while some may, on balance we are not convinced that overall the proposal would better meet BSC objectives.</p> <p>Some of the benefits which the proposal seeks to preserve, either directly within the BSC, flowing from the BSC into other charging areas, or entirely within other areas, were created to assist new entry of embedded generation, effectively at the expense of existing generation and demand, with an expectation that the intangible benefits to competition would outweigh the anti-competitive effect of cross-subsidy. Such decisions are necessarily subjective, and taken by Government and Ofgem taking into consideration wider objectives.</p> <p>Now that embedded generation is an established and</p>

Respondent	Response	Rationale
		<p>growing feature of the electricity market, it is less clear that the same level of assistance is required, and excessive assistance could lead to inefficient outcomes for the GB electricity market and the BSC objectives.</p> <p>It is not obvious that embedded generators should necessarily receive a credit for BSCCo charges for reducing the net flow from the transmission system at their location. Even if generation and demand largely netted within distribution systems, the transmission system and a BSC to measure flows, settle balancing actions and allocate the costs of imbalances would still be required.</p> <p>Although transmission network and balancing services charges are not directly within the scope of the BSC, the BSC does impact on them, through the resolution at which generation and demand are measured and aggregated, and the definition of Trading Units. Exemptable embedded generation exactly matched to an associated demand at all times may reduce requirements for external transmission capacity, and may not require many services from the system operator. However, most embedded generation and demand separately require and benefit, in the same way as any other generator or demand, from centrally provided frequency response, voltage control and reserve capability and utilisation, provided through the transmission infrastructure.</p> <p>A separate concern is that the Offshore Transmission arrangements have been designed with an intention that offshore transmission be treated as a shared system like onshore transmission. Offshore generators connecting to the shared system will in principle be treated in largely the same manner as onshore generators, using the existing framework. By seeking to effectively retain the existing arrangements for a subset of situations, this proposal partly avoids that intention.</p> <p>If the benefits which could be achieved under this proposal, or by exemptable generation in general, are excessive, then inefficient incentives could be created for investment in such generation. In particular, an incentive could be created to develop multiple exemptable generators each connected to distribution, even where the offshore circuit is considered transmission, rather than more efficient larger generators and transmission connections. It has been argued during assessment that the benefits of larger capacity installations and circuits outweigh the embedded benefits which are foregone for such installations, and that the Transmission and Distribution companies will choose efficient designs in future under the offshore regime, but this has not been explicitly quantified during the assessment.</p> <p>This said, we have sympathy with developers of existing installations or those in an advanced stage of development for whom the imposed changes represent</p>

Respondent	Response	Rationale
		<p>a significant change. The proposal has a benefit of not undermining investment decisions made by those developers, and we hope that the tightly defined circumstances in which the proposal is framed would largely limit applicability to these parties. Specifically, exemptable offshore generators connected by dedicated transmission circuits to onshore distribution.</p> <p>If approved, the regulator should give due attention to the licensing regime and the recommendations of the transmission and distribution companies for future offshore developments, to ensure that efficient network designs are sought. The regulator should also give due attention to whether the existing suite of embedded benefits remain appropriate, as the volume of exemptable and embedded generation increases.</p> <p>Whilst we acknowledge that introduction of the offshore regime will introduce a discrimination between offshore exemptable windfarms connected to distribution by what will be offshore transmission circuits, and equivalent onshore windfarms connected directly to distribution, this discrimination would be justified if the benefits lost are unjustified. We also note that approval of a proposal which would give benefits to offshore windfarms connected to transmission would discriminate against exemptable onshore generators, including windfarms, connected to transmission.</p> <p>The consultation document suggests a benefit under BSC Objective (a):</p> <p style="padding-left: 40px;">“Promotes efficient network design solutions. The current Baseline provides a disincentive for Offshore Generators to connect via Embedded Transmission even when this would be the most efficient solution.”</p> <p>However, if the embedded benefits to a generator are excessive, then there could be incentives to seek inefficient network arrangements.</p> <p>The consultation suggests a benefit under BSC Objective (b):</p> <p style="padding-left: 40px;">“Ensures that there is no unnecessary economic impact on the Transmission System from the cost of retrofitting Offshore Metering. This impact would be, in part, from the required network outages to fit this metering. Promotes Offshore renewable Generation by introducing an extra option for small generation, when new offshore sites are being developed.”</p> <p>We acknowledge the difficulty and cost of retrofitting offshore metering. We also acknowledge that metering requirements are made more complex, possibly unnecessarily so, because the low voltage offshore network to which wind generators strings are connected may be classified as transmission, where onshore the boundary would generally be at higher voltage. However, such metering is desirable in the</p>



Respondent	Response	Rationale
		<p>situation of multiple offshore windfarms as envisaged by the offshore transmission regime, both for settlement purposes and for monitoring of potential balancing services provided. Approval of this (and related proposals P237 and P238) could give a message that such metering is not and will never be required, and we urge caution in relaxing the requirements. In the specific circumstances identified in this proposal, metering dispensations should have good prospect of success, and this alternative approach would not signal a relaxed approach for future developments.</p> <p>On objective (c) the consultation document suggests the proposal would:</p> <p style="padding-left: 40px;">“Promote competition in generation by removing any undue discrimination between the onshore and offshore situation.</p> <p style="padding-left: 40px;">Ensures that the correct costs associated with the Embedded Transmission are targeted at the Offshore Exemptable Generator.”</p> <p>Conversely, the proposal would introduce discrimination between offshore transmission connected generators and onshore transmission connected generators and any other exemptable onshore generator not qualifying for embedded benefits.</p> <p>It is not obvious what the “correct costs” to which offshore exemptable generators associated with “embedded transmission” should be subject. Consistency with other transmission connected generators would suggest they should share total transmission losses (including those on the offshore transmission) and not be exposed to (or benefit from) distribution Line Loss adjustments.</p>

Question 2: Do you believe that there are any alternative solutions to the issue which the Modification Group has not identified, and which it should consider?

### Summary

Yes	No	Neutral/Other
1	4	0

### Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of ScottishPower)	No	-



Respondent	Response	Rationale
RWE Supply & Trading GmbH	No	The proposed solution represents a pragmatic and comprehensive approach towards the treatment of licence exempt offshore transmission connected generation.
Centrica	No	-
Energy Technical & Renewable Services Ltd	Yes	<p>The current formulation of P242 only applies to exemptable generators which are the sole connecting party at an offshore transmission system. Under the original modification proposal there was no reference to shared or sole use assets being a determinant of whether an existing embedded generator would be able to continue to receive embedded benefits after the Go Live date for Offshore Transmission. Whilst we support the principles underlying P242 we are concerned that if implemented in this way there will remain an inconsistent treatment between different offshore licence exempt generators.</p> <p>P242 as drafted would apply to three offshore licence exempt generators, Barrow, Robin Rigg East and Robin Rigg West. DONG Energy is the owner of Gunfleet Sands Ltd and Gunfleet Sands II Ltd, two licence exempt generators connected to the licence exempt distribution system of their affiliate, Gunfleet Grid Company Ltd. The boundary of the Total System is offshore at the interface between each of the generators and Gunfleet Grid Company and settlement metering is in use at this point. The two generators currently enjoy embedded benefits which will be lost upon OFTO Go Live and are not protected by the proposals in P242. Further details on the technical and commercial structures at Gunfleet Sands are provided in the attached paper with is confidential.</p> <p>The sole connecting party condition was not a feature of the original modification proposal and we propose an alternative with this condition removed. In order to accommodate two or more exemptable generators connected to an embedded transmission system it would be necessary to obtain meter readings at the offshore boundary rather than solely at the onshore connection point. As noted above the Gunfleet generators are metered at offshore boundary but it is important to note that losses in the connection to shore are not socialised since they are reflected in the distribution loss adjustment which has been agreed with the DNO. Our proposal would be to continue metering at the offshore boundary but with adjustment via the metering aggregation rules to reflect the onshore position for each exemptable generator on a pro rata basis.</p> <p>If this approach was agreed it would mean any "sole</p>

Respondent	Response	Rationale
		use" offshore licence exempt generators could at a later date share their transmission assets. This may be a real possibility given the Crown Estate's current invitation to existing round 1 and 2 wind farms to propose site extensions. If the current formulation of P242 was approved, new developments at the relevant sites would be unlikely to share existing transmission infrastructure since this would remove embedded benefits for the existing station. With the change we propose, this distortion would be removed.
E.ON UK plc	No	-
EDF Energy		The alternative proposal considered but rejected by the modification group has the advantage of being consistent with the approach for other directly connected generators. It would result in losses on the offshore transmission circuits being shared, but would remove exposure to, or benefit from, distribution line loss adjustments.

Question 3: The Group believes that the P242 changes to the BSC and BSCP15 should be implemented 5 Working Days after an Authority decision. Do you agree?

### Summary

Yes	No	Neutral/Other
5	0	0

### Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of ScottishPower)	Yes	As the changes are administrative in nature there should be no delay in implementation
RWE Supply & Trading GmbH	Yes	There is no reason for any delay in implementation.
Centrica	Yes	-
Energy Technical & Renewable Services Ltd	Yes	No system changes are needed therefore no reason not to implement as soon as possible after the Authority decision.
E.ON UK plc	Yes	If P242 is implemented, there should be little impact for existing generators in that P242 seeks to retain the present treatment. Should a decision be forthcoming after Go Live however, then generators will have a significant amount to do in order to change registration

Respondent	Response	Rationale
		back to the P242 arrangements.
EDF Energy	-	-

Question 4: The Group initial views are that it believes that P242 will better facilitate the achievement of Applicable BSC Objectives (a), (b) and (c) when compared with the existing BSC requirements. Do you agree?

### Summary

Yes	No	Neutral/Other
4	1	0

### Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of ScottishPower)	No	See question 1
RWE Supply & Trading GmbH	Yes	We endorse the views expressed by P242 assessment group.
Centrica	Yes	See response to question 1.
Energy Technical & Renewable Services Ltd	Yes	We support the reasons set out in section 7 but suggest that the objectives (a) and (c) would be better achieved by the alternative proposal described above and below.
E.ON UK plc	Yes	Please see our response to question 1.
EDF Energy		See response to question 1.

Question 5: Do you agree there is Undue Discrimination between the treatment of Onshore Exemptable Embedded Generators and the Offshore Equivalent?

### Summary

Yes	No	Neutral/Other
4	1	0

### Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf of	Yes	We agree that these sites should not be "double charged" and that elements of this Modification would help enable changes in other Codes to remove this.

Respondent	Response	Rationale
ScottishPower)		
RWE Supply & Trading GmbH	Yes	<p>We note that the issue of discrimination is essentially related to transmission and distribution charges for licence exempt generation after Go Live for the offshore transmission regime. We believe that the P242 proposals with associated charging changes would ensure that current offshore licence exempt power stations retain their associated embedded benefits. We note that the proposal would introduce differential treatment for transmission connected licence exempt generation offshore. We believe that such discrimination is acceptable (due discrimination) for licence exempt generation in circumstances where the associated transmission network is directly connected to a distribution network and consequently may be considered to be “isolated” from the main interconnected transmission system and there is only one licence exempt user of the “isolated” transmission network (sole user).</p>
Centrica	Yes	<p>The two types of generator were treated consistently prior to when the Offshore Transmission Regime went active in June 2009 and the Secretary of State designated changes to the BSC. This regime designates some offshore generation (where connected at 132kV or above) as transmission connected. However, this has not altered the offshore generators ability (or not) to access the wider transmission network. This element is still consistent with the onshore embedded generator. Thus the onshore and offshore embedded generator are two very similar cases which should have consistent treatment.</p> <p>However, the fact that their treatment will differ in terms of liability for BSUoS/RCRC, onshore losses, and whether meters are registered in CMRS or SMRS has no reasonable justification.</p>
Energy Technical & Renewable Services Ltd	Yes	<p>Onshore exemptable generators are deemed to be providing a benefit to the distribution system by virtue of the power flowing into the system. This occurs irrespective of whether they are directly connected to the DNO network, or indirectly via a private distribution system. Offshore exemptable generators whose power flows onto a DNO network are currently treated the same, again, irrespective of whether they are directly connected to the DNO network, or indirectly via a private distribution system. Upon Go Live of the offshore transmission regime there will be no change to any of the power flows and there is thus no basis to remove benefits from one class of generators and leave them in place for another. We thus consider it to be</p>

Respondent	Response	Rationale
		unduly discriminatory towards the offshore generators to do so. The financial impact of removal of these benefits is very significant and in our view contributes to the undue discrimination.
E.ON UK plc	Yes	<p>Undue discrimination occurs when similar circumstances are treated differently or when different circumstances are treated equally.</p> <p>The only difference between Offshore Exemptable Embedded Generators and Onshore Exemptable Embedded Generators is the presence of the Offshore assets. Both classes of generator have similar access rights in that should a generator be unable to generate due to unavailability of the distribution network to which it connects, then it will not be subject to the normal compensation mechanisms for Transmission connected Generators such as the acceptance of a bid or payments under the CUSC. Therefore, to treat them significantly differently, except to reflect the difference due to the Offshore assets, is unduly discriminatory.</p> <p>In contrast a 132kV Onshore Transmission connected Generator in Scotland, or a 132kV Offshore Generator connected directly to the Onshore Transmission System, is directly connected to the wider integrated Transmission System and does not suffer from the associated erosion of access rights. Therefore, generators in these circumstances cannot be seen as analogous to the Embedded Transmission Generator or indeed the Onshore Embedded Generator. This means that different treatment would not constitute undue discrimination.</p>
EDF Energy	No	As described in response to question 1, we have concerns that the discrimination is justified, because (a) we do not consider the benefits given to exemptable embedded generators have been justified as better meeting BSC Objectives and (b) connection to transmission is different to connection to distribution, despite the offshore transmission being itself connected to distribution.

## Question 6: Do you have any further comments on P242?

### Responses

Respondent	Response	Rationale
SAIC Ltd. (for and on behalf	No	-

Respondent	Response	Rationale
of ScottishPower)		
RWE Supply & Trading GmbH	No	
Centrica	No	
Energy Technical & Renewable Services Ltd	No	-
E.ON UK plc	No	-
EDF Energy	Yes	The assessment consultation suggests that generators which would be the subject of this proposal could, under the SVA option, join Supplier Base BM Units. We believe the solution agreed by the modification group, which we support, would require them, under the SVA option, to become Supplier Additional BM Units, in order that they may be explicitly identified, like other transmission connected generators, for the purposes of physical notification, potential balancing actions, and transmission charging.