

<b>Modification Proposal</b>	<b>MP No: P156</b> <i>(mandatory by BSCCo)</i>
<b>Title of Modification Proposal</b> <i>(mandatory by proposer):</i> Suspending the implementation of the zonal allocation of transmission losses	
<b>Submission Date</b> <i>(mandatory by proposer):</i> 19 December 2003	
<b>Description of Proposed Modification</b> <i>(mandatory by proposer):</i> Remove the effect of P82 and P125 with immediate effect and withdraw or disable any system or documentation changes already incorporated into the BSC baseline, such that P82, as modified by P125, is not implemented as originally planned from 1 April 2004.	
<b>Description of Issue or Defect that Modification Proposal Seeks to Address</b> <i>(mandatory by proposer):</i> Implementation of the zonal allocation of transmission losses from 1 April 2004 under P82 will cause costs to be incurred which will be passed on to customers and which, due to the forthcoming implementation of BETTA, cannot be economically justified.  Following extensive consultation and analysis the DTI announced on the 27 June 2003 that the benefits that might flow from the introduction of average zonal transmission losses (AZTL) in a GB market were ambiguous. The DTI does not believe that AZTL as proposed, has been proven to produce a definite beneficial effect in a GB market, or that the benefits would sufficiently outweigh the costs, stating "the Secretary of State and the Minister for Energy, E-Commerce and Postal Services, Stephen Timms, are not minded to designate Average Zonal Transmission Losses as part of the GB BSC."  P82 was considered and approved in the context of England and Wales only, as was a subsequent (rejected) Modification Proposal, P134, which sought to halt unnecessary and inefficient work and expenditure on the implementation of P82 following the publication of the Secretary of State's "minded to" statement in June 2003. Bearing in mind that the purported objective of P82 was to send out long term economic signals to generators and suppliers, although any net beneficial effect of P82 as a long term mechanism is unproven, operating under P82 for the short period until BETTA is introduced is very unlikely to deliver any net benefit.  Whilst central system costs associated with P82 have already been incurred, work on Parties' systems, with the associated costs which will ultimately be paid for by customers, has still to be completed. These costs can be avoided by suspending the implementation of P82.	
<b>Impact on Code</b> <i>(optional by proposer):</i> See P82 and P125 implementation.	
<b>Impact on Core Industry Documents</b> <i>(optional by proposer):</i> See P82 and P125 implementation.	
<b>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties</b> <i>(optional by proposer):</i>	
<b>Impact on other Configurable Items</b> <i>(optional by proposer):</i>	

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### **Justification for Proposed Modification with Reference to Applicable BSC Objectives** *(mandatory by proposer):*

BSC Modification Proposal P82, to introduce average zonal transmission losses into the wholesale electricity market in England & Wales, was approved on 17 January 2003, with an implementation date of 1 April 2004. This was contrary to the recommendation of the BSC Panel and the views of the majority of consultation respondents, who were concerned that the benefits attributed to the proposal had not been demonstrated to justify the total implementation and operating costs.

Subsequently, on 30 January 2003, the DTI published a consultation on whether average zonal transmission losses would also be appropriate in a GB market, i.e. following the proposed introduction of the British Electricity Trading and Transmission Arrangements (BETTA). The outcome of this consultation was a statement from the DTI on 27 June 2003 that "the Secretary of State and the Minister for Energy, E-Commerce and Postal Services, Stephen Timms, are not minded to designate Average Zonal Transmission Losses as part of the GB Balancing and Settlement Code."

In light of the DTI statement, Modification Proposal P134 was raised on 30 June 2003 to halt all unnecessary and inefficient work and expenditure associated with P82. This modification was supported by a majority of respondents and was recommended for approval by the BSC Panel. However, the Authority decided on 18 September 2003 that the modification should not be made. In its decision letter the Authority referred to the uncertainty associated with the introduction of BETTA, in particular to the delays in BETTA legislation and the consequential slippage in the BETTA timetable. The Authority also made reference to its earlier decision not to consult on a GB-wide basis in respect of BSC modification proposals until the BETTA legislation had achieved its Second Reading in either of the Houses of Parliament.

Since the decision to reject P134 was published, there have been further developments in relation to the introduction of BETTA. The intention to pursue the implementation of BETTA has been evidenced by its incorporation in the Energy Bill, which was included in the Queen's Speech on 26 November 2003. The Energy Bill achieved its Second Reading in the House of Lords on 11 December 2003 and the Authority had already indicated by letter dated 5 December 2003 that, this being the case, it would be appropriate to consider the GB implications of any Modification proposed for England and Wales as there would be sufficient legal certainty associated with the BETTA programme.

There must now be greatly increased confidence that the implementation of BETTA will proceed with a target implementation date of 1 April 2005. This being the case, the implementation of P82 must be re-considered in the light of the current circumstances and, in particular, in anticipation of a GB market.

Generators in Scotland have made their decisions on location and other investments under the separate arrangements prevailing in the Scottish electricity market and could not have been expected to make those decisions on the basis of the subsequent absorption of Scotland into a wider market. It would therefore unfairly discriminate against power stations in Scotland if P82 were to apply GB-wide from BETTA Go-Live. Allied with the Secretary of State's "minded to" statement, there can be little doubt that the changes required to implement P82 and P125 into the BSC from 1 April 2004 will, in effect, have to be reversed with effect from 1 April 2005.

The purported objective of P82 was to send out long term economic signals to generators and suppliers. It is difficult to believe, therefore, that there will be any material market benefit to be gained from operating under the P82 regime for a mere 12 months. Further, the OXERA study commissioned by the DTI as part of its January 2003 consultation concluded that "the effect on individual consumers (particularly in the domestic sector) is likely to be small." Clearly, if that was the case over the long term in a GB market there will be

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negligible benefit for customers in England and Wales from a scheme that lasts for 12 months only. To incur costs for which there is no benefit is clearly counter to Applicable BSC Objective (a) – the efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence. It might be argued that even a 12-month scheme would contribute towards the redistribution of costs between market participants envisaged by the Authority. However, temporary gains/losses of this nature would tend only to distort the market, at a cost to Parties, and run counter to BSC Objective (c) - promoting effective competition in the generation and supply of electricity. It is also relevant that the DTI concluded in its report that “a redistribution is neither an overall benefit nor cost.”

While the changes to central systems and processes necessary for the implementation of P82 and P125 have already been incorporated into the CVA software and documentation, and the central implementation costs can therefore be considered to be sunk, there will undoubtedly still be implementation costs to be incurred by BSC Parties in relation to their own systems and processes. Also, if P82 goes ahead as planned, Parties and central systems will incur additional costs when they have to reverse the P82 changes in time for BETTA Go-Live. It would also create additional complications in testing and trialling systems for BETTA that would be better avoided and which run counter to BSC Objective (d) – promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Approval of this modification proposal will therefore:

- remove the need for further expenditure to modify Parties’ systems,
- avoid the need for future expenditure to disable or remove the system changes which have still to be introduced for P82,
- increase confidence in the shape of the GB market going forward, thereby reducing the perceptions of risk, and hence costs, faced by all participants in the GB market,
- avoid the re-distributive effects of the sudden, and temporary, introduction of zonal loss allocation, and
- remove the complication of having different loss allocation systems in the NETA live systems and the BETTA test systems.

This proposal therefore better facilitates BSC Objective (a) – the efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence, (c) - promoting effective competition in the generation and supply of electricity and (d) – promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Note that some details of Approved Modification P82 were subsequently changed by Approved Modification P125. Code and system changes introduced by P125 are also subject to this modification proposal.

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**Attachments: NO**

**If Yes, Title and No. of Pages of Each Attachment:**