

INITIAL WRITTEN ASSESSMENT for Modification Proposal P156 Suspending the Implementation of the Zonal Allocation of Transmission Losses

Prepared by: ELEXON¹ Limited

Date of issue:	9 January 2004	Document reference:	P156IR
Reason for issue:	Panel Decision	Issue/Version number:	Final/1.0

This document has been distributed in accordance with Section F2.1.10² of the Balancing and Settlement Code.

RECOMMENDATIONS

On the basis of the initial assessment BSCCo recommends that the Panel:

- **DETERMINE that Modification Proposal P156 should be submitted to the Report Phase in accordance with F2.7 of the Code;**
- **AGREE the Report Phase timetable such that a Modification Report should be completed and submitted to the Panel for consideration at its meeting on 12 February 2004;**
- **AGREE that the draft Modification Report contain a provisional recommendation that P156 should be not be made; and**
- **AGREE an Implementation Date of 1 April 2004 if an Authority determination is received on or before 27 February 2004 or, 23 Working Days after an Authority determination where an Authority determination is received after that date.**

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¹ ELEXON Ltd currently fulfils the role of the Balancing and Settlement Code Company ('BSCCo'), pursuant to Annex X-1 of the Balancing and Settlement Code (the 'Code').

² The current version of the Code can be found at www.elexon.co.uk/ta/bscrel_docs/bsc_code.html

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SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess the following parties/documents have been initially identified as being potentially impacted by Modification Proposal P156.

Parties	Sections of the BSC	Code Subsidiary Documents
Suppliers <input checked="" type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input checked="" type="checkbox"/>
Generators <input checked="" type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Licence Exemptable Generators <input checked="" type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input checked="" type="checkbox"/>
Transmission Company <input checked="" type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>
Interconnector <input checked="" type="checkbox"/>	E <input checked="" type="checkbox"/>	Data Catalogues <input type="checkbox"/>
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input checked="" type="checkbox"/>
Party Agents		
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input checked="" type="checkbox"/>
Data Collectors <input type="checkbox"/>	H <input checked="" type="checkbox"/>	MIDS <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	J <input type="checkbox"/>	Core Industry Documents
ECVNA <input type="checkbox"/>	K <input type="checkbox"/>	Grid Code <input type="checkbox"/>
MVRNA <input type="checkbox"/>	L <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
BSC Agents		
SAA <input checked="" type="checkbox"/>	M <input type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>
FAA <input type="checkbox"/>	N <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BMRA <input checked="" type="checkbox"/>	O <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
ECVAA <input type="checkbox"/>	P <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
CDCA <input checked="" type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
TAA <input type="checkbox"/>	R <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>
CRA <input checked="" type="checkbox"/>	S <input type="checkbox"/>	Distribution Codes <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	T <input checked="" type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>
BSC Auditor <input checked="" type="checkbox"/>	V <input checked="" type="checkbox"/>	BSCCo
Profile Administrator <input type="checkbox"/>	W <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
Certification Agent <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Other Documents
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
TLFA <input checked="" type="checkbox"/>		
Other Agents		
SMRA <input type="checkbox"/>		
Data Transmission Provider <input type="checkbox"/>		

Estimated cost for progressing P156 through Modification Procedures	10 ELEXON man days
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1 DESCRIPTION OF PROPOSED MODIFICATION

1.1 Modification Proposal

1.1.1 Description of Modification Proposal

Modification Proposal P156 'Suspending the Implementation of the Zonal Allocation of Transmission Losses' (P156) was submitted by Scottish Power Energy Management Limited (the 'Proposer') on 19 December 2003. A copy of the Modification Proposal form is attached as Annex 1.

P156 seeks to modify the Balancing and Settlement Code (the 'Code') to prevent the implementation of the combined changes introduced by Approved Modification Proposals P82 'Introduction of Zonal Transmission Losses on an Average Basis' (P82) (Reference 1) and P125 'Apportionment of the Scottish Interconnector Flows to the Northern and North Western GSP Groups for the Purposes of Calculating Losses' (P125) (Reference 2) scheduled for 1 April 2004.

The method to be used to prevent the implementation of 'Average Zonal Transmission Losses' (AZTL), the arrangements due to be introduced by P82 as modified by P125, is not specified - 'withdrawing' and 'disabling' the relevant system and documentation changes are cited as potential methods.

The Proposer believes that implementation of AZTL, as approved by the Authority, will have several negative consequences at variance with the achievement of the Applicable BSC Objectives.

First the alleged, but unproven, benefits that will be introduced by the long term 'economic signals'³ of AZTL will be unlikely to be realised over the short period, of one year, for which it appears the arrangements will be in place. Following consultation on AZTL in the BETTA⁴ context, the DTI announced on 27 June 2003 that the benefits of AZTL were unproven, and in particular that the benefits would outweigh the costs was unproven. As a consequence, the DTI issued a statement indicating 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 BSC". With BETTA scheduled to go live on 1 April 2005, this suggests that the AZTL arrangements will only be operational for one year. According to the Proposer, the probability of such a short period of operation has increased since June 2003. On 11 December 2003, the Energy Bill, which contains the legislation necessary for BETTA, received its second reading in the House of Lords. A milestone which the Authority previously indicated would constitute at point in time at which "the BETTA legislation could be seen to have attained a significant step towards forming part of the legal framework within which Ofgem will operate".

Second, whilst the development costs associated with the implementation of AZTL have already been incurred, work on the systems of market participants to accommodate the new arrangements has yet to be completed. The costs associated with such development work will ultimately be paid for by customers.

In summary, the probability that AZTL will be in place for only a year has increased. The purported benefits of the arrangements, in terms of long term economic signals, are unlikely to be realised over such a short timescale. In addition, market participants are still incurring costs, which will ultimately be paid for by customers, due to ongoing development work to accommodate AZTL. Therefore, given that the BETTA legislation is now progressing through Parliament, the Proposer believes that the implementation of AZTL should be reconsidered.

According to the Proposer, P156 would better facilitate the achievement of Applicable BSC Objectives (a), (c) and (d) which are as follows:

³ In the context of AZTL, the term 'economic signals' has been used to refer to the incentives provided by the differential between zonal Transmission Loss Factors (TLFs) to locate assets within zones where TLFs are comparatively favourable.

⁴ 'BETTA' refers to the British Electricity Trading and Transmission Arrangements.

- Applicable BSC Objective (a): 'the efficient discharge by the licensee of the obligations imposed upon it by this licence';
- Applicable BSC Objective (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'; and
- Applicable BSC Objective (d): 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

Under Applicable BSC Objective (a), the Transmission Company is charged with the efficient discharge of obligations imposed upon it under the Transmission Licence. According to the Proposer, incurring costs, through the ongoing development work for AZTL amongst market participants, for no or negligible benefit, owing to the short period for which the AZTL arrangements will be operational, is counter to Applicable BSC Objective (a). Therefore, the immediate cessation of the implementation of AZTL and its removal from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (a).

Under Applicable BSC Objective (c), the trading arrangements should promote competition in the various sectors of the electricity market. According to the Proposer, the redistribution of the costs attributed to transmission losses between market participants for the twelve month period for which it appears AZTL will be in place will distort competition in the market through temporary gains and losses. In addition, the removal of AZTL would "increase confidence in the shape of the GB market going forward, thereby reducing the perceptions of risk, and hence cost, faced by all participants in the GB market". Therefore, the removal of AZTL from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (c).

Under Applicable BSC Objective (d), efficiency in the implementation and administration of the balancing and settlement arrangements should be promoted. According to the Proposer, the continuing development costs being incurred by market participants to accommodate AZTL, the costs that will be incurred to reverse the changes introduced by AZTL for BETTA Go-Live and the additional costs which might be incurred in preparation for the potential extension of AZTL to cover Scotland (e.g. the additional cost and complexity of requiring different loss allocation systems in the NETA live systems and the BETTA test systems) run counter to Applicable BSC Objective (d). Therefore, the immediate cessation of the implementation of AZTL and its removal from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (d).

1.1.2 Request for Urgency

The Proposer requested that P156 be treated as urgent. The procedure for granting urgent status is described in F 2.9 of the Code. The initial requirement is that 'the Transmission Company and/or BSCCo recommend to the Panel Chairman that a proposal should be treated as an Urgent Modification Proposal'.

BSCCo believes that P156 does not meet the criteria previously applied to determine that a Modification Proposal should be granted Urgent status. Progressing P156 according to the normal Modification Procedure timetable will not pose a risk to the integrity of the settlement process, impose disproportionate costs or introduce uncertainty. Moreover, BSCCo believes that P156 can be processed, without Urgent status, such that a determination could be received in sufficient time prior to the 1 April 2004 AZTL Implementation Date, to prevent implementation of those arrangements.

1.2 Issues raised by the Modification Proposal

An initial assessment of Modification Proposal P156 has identified the following potential areas of impact and issues which will need to be considered and addressed in progressing the Modification Proposal:

- **Issue One:** the Authority determinations on P82 and P125 concluded that both would better facilitate the achievement of the Applicable BSC Objectives. No new issues relevant to the England and Wales Code have been raised by P156. The Proposer cites the fact that Scottish generators have made location and investment decisions based upon the separate Scottish trading arrangements and, that therefore, it would be discriminatory to apply AZTL to those generators. However, BSCCo believes that consideration of decisions made under the Scottish trading arrangements and of the implications of extending NETA to Scotland are outside the scope of the BSC.
- **Issue Two:** no Code changes, relevant to AZTL, have taken place since Modification Proposal P134 'The Halting of Unecessary and Inefficient Work and Expenditure Associated with Approved BSC Modification P82' (P134) (Reference 3) was rejected by the Authority on 18 September 2003. P134, like P156, sought to remove the effect of AZTL. The Proposer cites the Second Reading of the Energy Bill in Parliament as a relevant development. However, BSCCo believes that the entry into and progression through the Parliamentary process of a Government Bill is outside the scope of the Code. Moreover, there is still no certainty regarding the outcome of that process or the BETTA Go-Live date.
- **Issue Three:** all central system development costs associated with the implementation of AZTL have already been incurred. Several of the central system and process changes made to give effect to AZTL would need to be disabled or removed to implement P156. The time and cost associated with this activity would depend on the method used to remove the effect of AZTL and, as mentioned previously, no method is specified under P156. Under certain methods, costs could be considerable.
- **Impact Four:** any modifications or enhancements already made to Party systems and processes would be made redundant by implementation of P156. However, any costs associated with developments yet to be made or completed would be avoided were P156 implemented.

2 INITIAL ASSESSMENT OF IMPACTS OF MODIFICATION PROPOSAL

2.1 Impact on BSC Systems and processes

An initial assessment has been undertaken in respect of all BSC Systems and processes and the following have been identified as potentially being impacted by the Modification Proposal:

BSC System / Process	Potential Impact of Proposed Modification
Collection and Aggregation of Metered Data	The bespoke software developed by the Central Data Collection Agent (CDCA), to provide an extract of Metered Volumes for the sample Settlement Periods required by the Transmission Loss Factor Agent (TFLA), would have to be disabled or removed.
Settlement	The SAA would need to be instructed to use TLFs of 'zero' in Settlement.
Registration	The Central Registration Agent (CRA) would need to be instructed to use TLFs of 'zero'. Note that BM Unit zonal TLFs (i.e. non-zero TLFs) are due to be loaded into the CRA systems in March 2004. If an Authority determination in favour of P156 is received after the TLFs have been loaded, CRA would need to be instructed to load a file of zero TLFs into its systems for the purposes of Settlement.
Reporting	Reporting functionality associated (e.g. enhancements made to BMRS) with AZTL would have to be disabled or

BSC System / Process	Potential Impact of Proposed Modification
	removed from the central systems.
Generation of Zonal Transmission Loss Factors	Depending upon the timing of an Authority determination in favour of P156, the generation of zonal TLFs by the TLFA for use in BSC Year 2005/6 might need to be halted. BSCCo is scheduled to enter into a contract with the TLFA to generate zonal TLFs for use in BSC Year 2005/6, and notice must be given to the TLFA should BSCCo wish not to enter in that contract.

The nature and materiality of the impact on central systems and processes is dependent on the method used to remove the effect of AZTL from the trading arrangements.

BSCCo recommends the following solution:

- Removal of AZTL-specific text is removed from all outward facing and published documentation;
- No removal of AZTL functionality from BSC Agent software/systems; and
- Amdment to BSC Agent documentation through footnotes.

BSCCo estimates the above solution will require approximately 23 working days to implement. Note that BSCCo is recommending this low-impact solution to enable P156 to be implemented on 1 April 2004. However, to meet this deadline, a Authority determination would be needed by 27 February 2004

Note that BSCCo proposes implementation of P156 on a Settlement Day basis, such that implementation after 1 April 2004 would result Settlement having been carried out with non-zero TLFs for the interim period.

2.2 Impact on other systems and processes used by Parties

An initial assessment has been undertaken in respect of systems and processes used by Parties and the following have been identified as potentially being impacted by the Modification Proposal:

System / Process	Potential Impact of Proposed Modification
Transmission Company Provision of Network Data	The Transmission Company would no longer be required to compile and provide the TLFA with network data for use in the Load Flow Model each BSC Year.
Party AZTL Modifications	Any modifications or enhancements already made to Party systems and processes would be made redundant by implementation of P156. However, any costs associated with developments yet to be made or completed would be avoided were P156 implemented.

2.3 Impact on documentation

2.3.1 Impact on Balancing and Settlement Code

An initial assessment has been undertaken in respect of all Sections of the Code and the following Sections have been identified as potentially being impacted by the Modification Proposal:

Item	Potential Impact of Proposed Modification
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Section E	The definition of the TLFA would need to be removed.
Section H	Reference to the Load Flow Model would need to be removed.
Section T	Annex T-2, and reference to that Annex within Section T, would have to be removed. Annex T-2 provides a high-level description of the 'Transmission Loss Factor Methodology' and the 'Load Flow Model' used to generate zonal TLFs.
Section V	The reporting requirements of the TLFA would need to be removed.
Annexes X-1 & X-2	The additional definitions, introduced by P82 as modified by P125 into these two annexes, would need to be removed.

2.3.2 Impact on Code Subsidiary Documents

An initial assessment has been undertaken in respect of all Code Subsidiary Documents and the following documents have been identified as potentially being impacted by the Modification Proposal:

Item	Potential Impact of Proposed Modification
BSCP01	BSCP01 – 'Overview of Trading Arrangement – Remove changes introduced by P82
BSCP15	BSCP15 - 'BM Unit Registration' - update required to remove obligation on the CRA to notify TLFA of registration of new BM Units and de-registration of existing BM Units – Remove changes introduced by P82
BSCP20	BSCP20 – Registration, Commissioning and Proving of Metering Systems for CVA – Remove changes introduced by P82
BSCP38	BSCP38 – Authorisations – Remove changes introduced by P82
BSCP41	BSCP41 – Report Requests and Authorisation – Remove changes introduced by P82.
BSCP42	BSCP42 'Business Continuity' – Remove changes introduced by P82
TLFA Service Description	The TLFA Service Description would become redundant and would need to be discontinued.
CRA Service Description	Remove changes introduced by P82
CDCA Service Description	Remove changes introduced by P82
SAA Service Description	Remove changes introduced by P82
NETA Data File Catalogue	Remove changes introduced by P82
Reporting Catalogue	Remove changes introduced by P82
Communications Requirements Document	Remove changes introduced by P82

2.4 Impact on Core Industry Documents

An initial assessment indicates that P156 would not impact any of the Core Industry Documents.

2.5 Impact on other configurable items

An initial assessment has been undertaken in respect of other configurable items and the following have been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
CDCA User Requirements Specification	Remove changes introduced by P82, as modified by P125.
CRA User Requirements Specification	Remove changes introduced by P82, as modified by P125.
Interface Definition & Design Document (IDD)	Any changes made to support P82, as modified by P125, would need to be removed.
TLFA Documentation	All TLFA documentation would need to be discontinued.
Network Mapping Statement	The Network Mapping Statement, maintained by BSCCo, would need to be discontinued.

3 IMPACT ON BSCCO

An initial assessment has been undertaken in respect of BSCCo and the following have been identified as potentially being impacted by the Modification Proposal.

Area of Business	Potential Impact of Proposed Modification
BSCCo Systems	Business Process Model ⁵ , BSC Website developed and the ELEXON NGC file converter would need to be amended to remove any changes introduced by P82.
BSCCo Procedures	BSCCo calculation of the zonal TLF applicable to Scottish Interconnector would need to be discontinued.
BSCCo Contracts (Excluding BSC Agent Contracts)	The contract with the TLFA Modelling Reviewer will need to be terminated.
Other (e.g. costs, staffing, etc.)	Time and effort would need to be expended to disable or remove the documentation and system changes associated with P82, as modified by P125. However, the level of that effort and the time taken is dependent on the method adopted (see section 2.1 above).

4 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

An initial assessment has been undertaken in respect of BSC Agent contractual arrangements and the following have been identified as potentially being impacted by the Modification Proposal.

⁵ Work on the Business Process Model and the BSC Website has not yet commenced.
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BSC Agent Contract	Potential Impact of Proposed Modification
PwC (BSC Auditor, Certification Agent)	Potential change to the BSC Audit requirements.
Transmission Loss Factor Agent Contract	The TLFA Contract would need to be terminated.

5 RATIONALE FOR BSCCO'S RECOMMENDATIONS TO THE PANEL

BSCCo recommends that P156 be submitted directly to the Report Phase with a recommendation that a Code Modification should not be made. The rationale for this recommendation is based on the following:

- the AZTL arrangements are now part of a Code-baseline which the Authority determined better meets the Applicable BSC Objectives;
- no new issues, relevant to the England and Wales Code, have been raised by P156; and
- assessment of the probability that the Energy Bill will be passed by Parliament and speculation as to whether or not AZTL will be included in BETTA are outside the scope of the BSC.

BSCCo recommends, should the Authority determine in favour of P156, an Implementation Date of 1 April 2004 where an Authority determination is received on or before 27 February 2004. Where an authority determination is received after this date, an Implementation Date of 23 Working Days after the Authority determination is recommended. Note that these implementation timescales are based on the solution recommended by BSCCo in section 2.1 of this document (i.e. a fast, low-impact, solution).

BSCCo estimates that progressing P156 through the Modification Procedure, based on the recommendation to submit P156 to the Report Phase, will require 10 man days of ELEXON effort.

6 PROCESS, TIMETABLE AND COST FOR PROGRESSING THE MODIFICATION PROPOSAL

BSCCo recommends that P156 be submitted directly to the Report Phase with a recommendation that a Code Modification should not be made. Should the Panel agree with the BSCCo recommendation, a draft Modification Report will be prepared based on the Panel's views and issued for consultation by 21 January 2004 allowing 10 working days for Parties to respond. The draft Modification Report, including any representations received will then be considered at the Panel meeting on 12 February 2004.

7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	7 January 2004	Roger Salomone	Sarah Parsons	Initial Draft
0.2	8 January 2004	Roger Salomone	Colin Berry	Revised Draft
1.0	9 January 2004	Roger Salomone	BSC Panel	Final

7.2 References

Ref	Document	Owner	Issue date	Version
1	Modification Proposal P82	-	3 May 2002	-
2	Modification Proposal P125	-	31 March 2003	-
3	Modification Proposal P134	-	30 June 2003	-

ANNEX 1 MODIFICATION PROPOSAL

Modification Proposal	MP No: P156 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Suspending the implementation of the zonal allocation of transmission losses	
Submission Date <i>(mandatory by proposer):</i> 19 December 2003	
Description of Proposed Modification <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.	
Description of Issue or Defect that Modification Proposal Seeks to Address <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.	
Impact on Code <i>(optional by proposer):</i> See P82 and P125 implementation.	
Impact on Core Industry Documents <i>(optional by proposer):</i> See P82 and P125 implementation.	
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i>	
Impact on other Configurable Items <i>(optional by proposer):</i>	

Modification Proposal

MP No: P156
(mandatory by BSCCo)

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

Modification Proposal	MP No: P156 <i>(mandatory by BSCCo)</i>
<p>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.”</p> <p>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.</p> <p>Approval of this modification proposal will therefore:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p>	
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Attachments: NO	
If Yes, Title and No. of Pages of Each Attachment:	

ANNEX 2 DRAFT LEGAL TEXT

See separate attachment for draft legal text.