

INITIAL WRITTEN ASSESSMENT for Modification Proposal P139 Removal of Trading Unit Restriction on Interconnector Users

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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 it is recommended that the Panel:

- **DETERMINE that Modification Proposal P139 be submitted to the Assessment Procedure, in accordance with Section F2.6 of the Code;**
- **AGREE the Assessment Procedure timetable such that an Assessment Report should be completed and submitted to the Panel for consideration at their meeting of 11 December 2003;**
- **DETERMINE that the Assessment Procedure should be undertaken by the Settlement Standing Modification Group; and**
- **AGREE any refinement to the Modification Group Terms of Reference.**

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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/bscres_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 (as shown by the shaded boxes) are potentially impacted by Modification Proposal P139.

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

Estimated cost for progressing P132 through the Modification Procedures	£ 10,000 50 ELEXON man days
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1 DESCRIPTION OF PROPOSED MODIFICATION

Modification Proposal P139 'Removal of Trading Unit Restriction on Interconnector Users' (P139) was raised by EDF Trading Ltd on 21 August 2003. P139 seeks to allow Interconnector BM Units to form Trading Units within England and Wales.

Currently section K 5.7.1 of the Code explicitly excludes Interconnector BM units from forming Trading Units³;

"An Interconnector BM Unit may not belong to a Trading Unit other than a Sole Trading Unit."

The main practical reason for forming a Trading Unit is to realise benefits associated with the net Trading Unit position. BM Units in a Trading Unit are afforded net treatment, meaning that the overall commercial effect is the same as if demand occurring within the Trading Unit were satisfied directly by production on site, with only the net of the two being traded over the system.

P139 was raised to allow Interconnector Users to realise Trading Unit benefits such as those relating to Balancing Services Use Of System charges (BSUoS). For example, if there was 1000MW contracted from France to UK and at the same time 500MW from UK to France, there would currently be BSUoS charges made on the gross value of 1500MW. Under P139 an Interconnector Trading Unit could be formed, the BSUoS charges would then be charged to those Interconnector BM Units (participating in the Trading Unit) in such a way as if the BSUoS charges were based on the 'net' value. In the example the BSUoS charges would correspond to 500MW, equivalent to the actual metered Interconnector flow and the amount 'seen' by the System Operator.

The Proposer believes that by removing the restriction on Interconnector BM Units forming a Trading Unit an unnecessary and unfair potential financial burden on existing and new Interconnector Users would be removed. It is also suggested that P139 would provide Interconnector Users with similar opportunities as afforded to other Trading Parties in England and Wales operating from the same site for the formation of a Trading Unit. P139 would therefore remove discrimination in this context, facilitate more efficient and competitive trading activity between neighbouring systems and remove the potential for duplicate charging of BSUoS charges, thereby meeting Applicable BSC Objectives⁴ (a), (c) and (d).

"a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;

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

d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements."

³ Every BM Unit is in a Trading Unit, even if that is a Trading Unit that comprises only the one BM Unit, in which case the Trading Unit is called a Sole Trading Unit. In this document, Trading Unit is used to refer to Trading Units that are not Sole Trading Units.

1.1 Issues raised by the Modification Proposal

An initial assessment of P139 has identified the following potential issues and areas of impact which will need to be considered and addressed during progression of the Modification Proposal.

1.1.1 Assessment Issues

- **Reconciliation of Interconnector and Trading Unit arrangements**

The principle of superposition allows for simultaneous import and export across an Interconnector such that traded volumes in one direction can exceed the capacity of the Interconnector. For example consider an Interconnector with a maximum capacity of 1000MW, whereby at any point in time there is a physical limit of 1000MW on the energy which can flow across the Interconnector. Under the principle of superposition, one Interconnector User may import 2000MW, whilst another is simultaneously exporting 1000MW. The 1000MW limit is exceeded by one of the Interconnector Users, however only 1000MW passes across the Interconnector and the allowed capacity is not breached.

In order to facilitate the principle of superposition, it is necessary for the export and import volumes for Interconnector Users to be identified separately. For this reason Interconnector User require separate BM Units for import and export. When BM Units form Trading Units it is possible for the production and consumption status of the individual BM Units to change in line with that of the net position of the Trading Unit. In the case of Interconnector BM Units this change in production/ consumption status presents a potential issue in the identification of import and export necessary to facilitate superposition. ELEXON's initial assessment has indicated that the clause preventing Interconnector BM Units forming Trading Units was introduced in order to ensure that import and export could be clearly identified for Interconnector BM Units.

Consideration of how the principle of superposition, and other aspects of the arrangements for Interconnectors, can be reconciled with the proposal to allow Interconnector BM Units to form Trading units is required.

- **System and Process Impacts**

In order to support Interconnector BM Units forming Trading Units changes may be required to the method for registering the production and consumption status of Interconnector BM Units within Central Systems. In order to support the principle of superposition specific registration techniques may be required for Interconnector BM Units, such that, when forming part of a Trading Unit, import and export volumes can be clearly identified. The changes required to Central Systems and associated costs will require further assessment.

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 impacts have been identified.

BSC System/Process	Potential Impact of Proposed Modification
Central Registration Agent	Changes to the registration details of Interconnector BM Units may be required to maintain appropriate production and consumption flags within Interconnector BM Units

2.2 Impact on other systems and processes used by Parties

Interconnector arrangements may require amendment in order to support the formation of Trading Units between Interconnector BM Units.

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 being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
Section K: Classification and Registration of Metering Systems and BM Units.	Paragraph 5.7.1 preventing Interconnector BM Units forming a Trading Unit would be removed. Potential changes to 4.5 and 4.6 to state registration and withdrawal requirements of Interconnector Trading Units. New entry in Annex K-2 for description and general requirements of Interconnector Trading Units.

2.3.2 Impact on Code Subsidiary Documents

An initial assessment has been undertaken in respect of all Code Subsidiary Documents and the following document has been identified as potentially impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
BSCP31: Registration of Trading Units	Amendments required referencing Interconnector Trading Units and the criteria for their creation. New forms may be necessary if the information required in the application is significantly different to that required for the current Trading Unit classes.

2.4 Impact on Core Industry Documents

An initial assessment has been undertaken in respect of Core Industry Documents and the following document has been identified as potentially impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
NGC Statement of Charges	Updated to reflect the formation of Interconnector Trading Units.
Use of Interconnector Agreement	Updated to reflect the arrangements for the formation of Interconnector Trading Units.

2.5 Impact on other configurable items

An initial assessment has been undertaken in respect of other configurable items and the following impacts have been identified.

Item	Potential Impact of Proposed Modification
Business Process Model	Process for Registering a Trading Unit would be updated.

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	
Service Delivery	Support registration of Interconnector Trading Units.
CVA Programme	Requirement to support implementation of System, Process and Documentation changes.

4 IMPACT ON BSC AGENT CONTRACTUAL ARRANGEMENTS

Initial assessment has been undertaken in respect of BSC Agent contractual arrangements and has indicated that amendments may be required to support changes to the BSC Agent systems and processes.

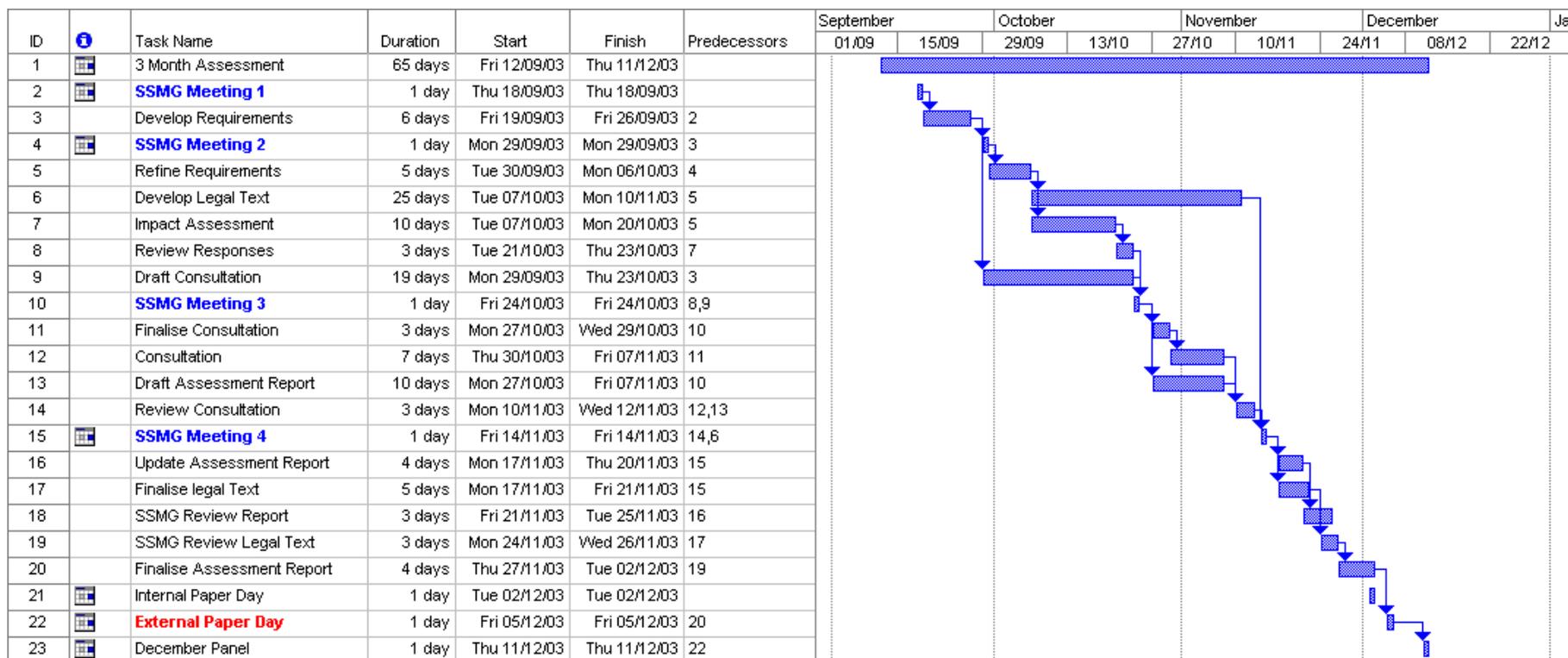
5 RATIONALE FOR BSCCO'S RECOMMENDATIONS TO THE PANEL

Initial assessment has highlighted several issues which require assessment. In light of these issues ELEXON recommends that this Modification Proposal be submitted to a 3-month Assessment Procedure to be conducted by the Settlement Standing Modification Group (SSMG).

The recommended 3-month timetable recognises the workload of the SSMG during this period and, as such, is aligned with the timetables for P140-"Revised Credit Cover Methodology for Interconnector BM Units" and P142-"Minor refinement to allow a Level 2 Default Cure period in defined circumstances".

6 PROCESS AND TIMETABLE FOR PROGRESSING THE MODIFICATION PROPOSAL

The proposed timetable for progressing P139 is as follows:



7 DOCUMENT CONTROL

7.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	04/09/03	Change Delivery	Change Delivery	Initial Draft for Formal Review
0.2	05/09/03	Change Delivery	Change Delivery	Final Review
1.0	05/09/03	Change Delivery	Panel	For Decision

ANNEX 1 MODIFICATION PROPOSAL

Modification Proposal	MP No: 139 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Removal of Trading Unit Restriction on Interconnector Users	
Submission Date <i>(mandatory by proposer):</i> 21 st August 2003	
Description of Proposed Modification <i>(mandatory by proposer):</i> The proposal is to modify the current BSC rule as specified in Para 5.7.1 of Section K, Classification and Registration of Metering Systems and BM Units, such that Interconnector BM Units can belong to a Trading Unit. It may also be necessary for there to be a special Class of Trading Unit ie an Interconnector Trading Unit, if one of the existing classifications is not thought appropriate.	
Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i> Para 5.7.1 of Section K of the BSC states that 'An Interconnector BM Unit may not belong to a Trading Unit other than a Sole Trading Unit.' It is contended that this is an unnecessary and unfair restriction on Interconnector BM Units who may wish to operate as a Trading Unit in similar fashion to other BM Units operating at the same site. The effect of the current rule is such that BSUoS charges are charged to each BM Unit active on the interconnectors for each half hour, whether or not the energy contracted transfers are superposed on each other and even though the System Operator will only react to the 'net' positions. By way of illustration, if there was 1000MW contracted from France to UK and at the same time as 500MW from UK to France, there would currently be BSUoS charges made on the gross value of 1500MW. If amended as proposed and an Interconnector Trading Unit is then formed, the BSUoS charges would be charged to those Interconnector BM Units (participating in the Trading Unit) in such a way as if the BSUoS charges were based on the 'net' value. In the above example the BSUoS charges would correspond to 500MW, equivalent to the actual metered interconnector flow and the amount 'seen' by the SO. The proposal would provide the means by which Interconnector BM Units can avoid bearing an unfair proportion of the total BSUoS charges, as can currently be the case if there are contractual flows operating in opposite directions across an interconnector ie if Superposition is taking place. For the proposal to be fully operational it is likely it will require either one of the Interconnector Users or the Interconnector Administrator to act as a coordinator and contract between all the Interconnector Users who wish to participate in the Trading Unit, in order to reconcile the relevant BSUoS and Residual Cash Flow payments amongst the relevant Interconnector BM Units. Under such an arrangement an IU as the Lead Party of the Interconnector BM Unit would receive an invoice from NGC, if its transfer was in the same direction as that of the Trading Unit in total. It would receive a payment if it is operating in the opposite direction to the Trading Unit and, if the Trading Unit registered a net zero then none of the IUs would be invoiced or be paid for that Settlement Period.	
Impact on Code <i>(optional by proposer):</i> The proposal seeks the deletion or amendment of Para 5.7 of Section K of the BSC, with consequent impacts on Paras 4.1 – 4.6 , Annex K-2 and BSCP31.	
Impact on Core Industry Documents <i>(optional by proposer):</i> Possible changes to the terms of the Use of Interconnector Agreements.	

Modification Proposal	MP No: 139 <i>(mandatory by BSCCo)</i>
Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties:	
The Interconnector Trading Unit would need to have the Deemed Metered Values summated for each of the participants for each of the half hours. This would allow NGC to determine the appropriate BSUoS charges and/or payments for each Lead Party of each BM Unit and, similarly, for Elexon to determine the Residual Cash Flow payments and/or charges amongst parties.	
Impact on other Configurable Items <i>(optional by proposer):</i>	
Justification for Proposed Modification with Reference to Applicable BSC Objectives:	
By removing the restriction on Interconnector BM Units forming a Trading Unit, the Proposal would remove an unnecessary and unfair potential financial burden on existing and new Interconnector Users. The proposal would also ease trades between the E&W market and the markets of neighbouring systems. It would provide Interconnector Users with similar opportunities as afforded to other Trading Parties in E&W operating from the same site for the formation of a Trading Unit. It would therefore remove the undue discrimination in this context, facilitate more efficient and competitive trading activity between neighbouring systems and remove the potential for duplicate charging of BSUoS Charges, thereby meeting Applicable BSC Objectives (a), (c) and (d).	
Details of Proposer:	
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Details of Proposer's Representative:	
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Organisation:	
Telephone Number:	
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Details of Representative's Alternate:	
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Attachments: NO	
If Yes, Title and No. of Pages of Each Attachment:	

