



APRIL 2003

**DRAFT MODIFICATION REPORT**  
**MODIFICATION PROPOSAL P116 -**  
**Changes to Allow Line Loss Factor Data**  
**from BSC Website to be Used in**  
**Settlement**

Prepared by ELEXON on behalf of the Balancing  
and Settlement Code Panel

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### c References

Ref.	Document	Owner	Issue Date	Version
1.	Assessment Report for Modification Proposal P116	ELEXON	10/04/03	1.0
2.	Initial Written Assessment for P116	ELEXON	16/01/03	1.0

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## 1 SUMMARY AND RECOMMENDATIONS

### 1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Modification Procedure, and the resultant findings of this report, the Balancing and Settlement Code Panel recommends that:

**Proposed Modification P116 should be made; and**

**The Implementation Date should be:**

- **27 November 2003 if an Authority Decision is received by 10 July 2003; and**
- **26 February 2004 if an Authority Decision is received after 10 July 2003 but before 11 September 2003.**

### 1.2 Background

Modification Proposal P116 'Changes to Allow Line Loss Factor Data from BSC Website to be Used in Settlement' (P116) was submitted on 6 January 2003 by East Midlands Electricity Distribution plc. P116 seeks to amend provisions in Section S of the Balancing and Settlement Code (the Code) concerning how Half Hourly Data Aggregators (HHDA) obtain the Line Loss Factor (LLF) data to be used in Settlement. Currently, the Code requires HHDA to use LLF data provided directly by the Public Distribution System Operators<sup>1</sup> (PDSO). LLF data is currently sent by PDSOs via the Line Loss Factor Data File (the D0265 data flow over the Data Transfer Network or a D0265 file sent by e-mail), as well as being reported on the BSC Website. P116 seeks:

- (i) to allow LLF data from the BSC Website to be used in Settlement; and
- (ii) to remove the obligation on PDSOs to send LLF data individually to the relevant BSC Parties and Party Agents.

The Initial Written Assessment for P116 was presented to the Panel meeting on 16 January 2003. The Panel determined that P116 should be submitted to a 3-month Assessment Procedure by the Volume Allocation Standing Modifications Group (VASMG). The Assessment Report for Modification Proposal P116 (Reference 1) was presented to the Panel meeting on 10 April 2003. The Panel agreed that the Proposed Modification should be made and submitted P116 to the Report Phase in accordance with Section F2.7 of the Code.

### 1.3 Rationale for Recommendations

P116 was assessed against BSC Objectives (c) and (d) as set out in paragraph 3 of Condition C3 of the Transmission 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.

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<sup>1</sup> It should be noted that Modification Proposal P62 has been approved by the Authority. As a result, the new term 'Licensed Distribution System Operator' (LDSO) will replace 'Public Distribution System Operator' (PDSO) after 1 August 2003 for all purposes relevant to P116.

A detailed account of the Panel's considerations can be found in Section 5 of this Report.

In summary, the Panel noted that P116 would provide a centralised facility for the dissemination of LLF data which is used in Settlement. The Panel also determined that P116 would improve the integrity of Settlement by eliminating a potential source of error. As a result, the Panel agreed with the VASMG view that Modification Proposal P116 would better facilitate Applicable BSC Objective (d). The Panel also noted that the VASMG had found it difficult to assess P116 against Applicable BSC Objective (c) due to the general lack of cost-benefit estimates from industry participants.

A draft Modification Report for P116 was issued for consultation on 16 April 2002. *[to be completed following the consultation]*

## 2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Panel, in accordance with the terms of the Code. The Code is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the Code.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC Website, at [www.elexon.co.uk](http://www.elexon.co.uk).

## 3 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P116 'Changes to Allow Line Loss Factor Data from BSC Website to be Used in Settlement' (P116) was submitted on 6 January 2003 by East Midlands Electricity Distribution plc. P116 seeks to amend provisions in Section S of the Code concerning how HHDA's obtain the LLF data to be used in Settlement. Currently, the Code requires HHDA's to use LLF data provided directly by PDSOs. LLF data is currently sent by the PDSOs via the Line Loss Factor Data File (the D0265 data flow over the Data Transfer Network or a D0265 file sent by e-mail), as well as being reported on the BSC Website. P116 seeks:

- (i) to allow LLF data from the BSC Website to be used in Settlement; and
- (ii) to remove the obligation on PDSOs to send LLF data individually to the relevant BSC Parties and Party Agents.

The Initial Assessment for P116 was presented at the Panel meeting on 16 January 2003. The Panel determined that P116 should be submitted to a 3-month Assessment Procedure by the VASMG. The VASMG met three times (on 29 January, 20 February and 18 March 2003) to consider P116. The Assessment Procedure included an impact assessment and consultation. As a result, the VASMG recommended that P116 should be made and implemented on 27 November 2003 if an Authority Decision is received by 10 July 2003 and 26 February 2004 if an Authority Decision is received after 10 July 2003 but before 11 September 2003.

The Assessment Report for Modification Proposal P116 (Reference 1) was presented to the Panel meeting on 10 April 2003. The Panel endorsed the recommendations of the VASMG and agreed that the Proposed Modification should be made and submitted to the Report Phase in accordance with Section F2.7 of the Code.

A draft Modification Report for P116 was issued for consultation on 17 April 2003. *[to be completed following the consultation]*

## 4 DESCRIPTION OF THE MODIFICATION

P116 seeks to amend provisions in Section S of the Code concerning how HHDA's obtain LLF data to be used in Settlement. Currently, the Code requires HHDA's to use LLF data provided directly by the PDSOs. LLF data is currently sent by the PDSOs via the Line Loss Factor Data File as well as being reported on the BSC Website. P116 seeks:

- (i) to allow LLF data from the BSC Website to be used in Settlement; and
- (ii) to remove the obligation on PDSOs to send LLF data individually to all relevant BSC Parties and Party Agents.

The Proposer stated that P116 was raised to give full effect to the intent behind Alternative Modification P30 - "Availability Of Market Information To BSC Parties And Non-BSC Parties", which was implemented on 27 March 2002. As a result of P30, LLF data is currently being reported on the BSC Website.

The Proposer believed that:

- (i) P116 would remove an unnecessary constraint on the business processes operated by the HHDA's, and would thereby promote efficiency and competition in the supply of electricity.
- (ii) P116 would remove the need for relevant Parties, Party Agents and BSC Agents to process an unnecessary data flow and would thus remove a barrier to market entry.
- (iii) P116 would reduce unnecessary costs incurred by PDSOs and would thereby reduce Distribution Use of System (DUoS) charges. The Proposer felt this issue to be material especially in the case of newly licensed distributors.
- (iv) P116 would improve the efficiency of systems used for the purposes of Settlement and also increase the accuracy of LLF data used in Settlement by removing risks associated with individualised data flows.

## 5 RATIONALE FOR PANEL RECOMMENDATIONS

### 5.1 Cost-Benefit Analysis

The Panel noted that the VASMG had conducted an Impact Assessment in order to quantify the costs and benefits of P116 to the industry. The Panel also noted that many BSC Parties and Party Agents had found it difficult to quantify the costs and benefits involved. For example, a respondent suggested that there would be a one-off cost but was unable to quantify it. Another response stated that the cost would not be major but would be in the "thousands". One BSC Party quoted an estimate of £5,000 for the one-off cost. On the other hand, some PDSOs reported a possible cost saving of between £1,500 to £12,000 per year per PDSO. Other PDSOs found it difficult to quantify the effect of P116 but supported the Proposed Modification on the grounds that their processes would become more efficient and manageable.

The Panel noted that the VASMG had found it difficult to conduct a cost-benefit analysis due to the general lack of cost-benefit estimates from the industry.

## 5.2 Applicable BSC Objectives

P116 was assessed against BSC Objectives (c) and (d) as set out in paragraph 3 of Condition C3 of the Transmission 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.

The Panel noted that P116 would provide a centralised facility for the dissemination of LLF data which is used in Settlement. The Panel also determined that P116 would improve the integrity of Settlement by eliminating a potential source of error. The Panel agreed that P116 would reduce risks to BSCCo and eliminate potential BSCCo costs which could otherwise be incurred as a result of avoidable error<sup>2</sup>. In conclusion, the Panel unanimously agreed with the VASMG view that Modification Proposal P116 would better facilitate Applicable BSC Objective (d).

The Panel then noted that the VASMG had found it difficult to assess P116 against Applicable BSC Objective (c) due to the general lack of cost-benefit estimates from industry participants. The Panel was also asked to note that whilst P116 might promote competition in the distribution of electricity, Applicable BSC Objective (c) did not explicitly encompass competition in distribution. The Panel noted the majority view of the VASMG that P116 could not be said to have an unequivocal impact on the better achievement of Applicable BSC Objective (c).

The Panel also noted that a minority of VASMG members believed that P116 would remove a barrier to market entry by simplifying the systems and processes through which a new Supplier or HHDA would obtain LLF data. It was also noted that a number of VASMG members, including the Proposer, felt that P116 would better facilitate the achievement of BSC Objective (c) on the basis that any cost savings to PDSOs would be passed on to Suppliers in a competitive environment and that all industry participants would benefit from simplifying and centralising the dissemination of LLF data.

A draft Modification Report for P116 was issued for consultation on 17 April 2003. *[to be completed following the consultation]*

## 6 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION

Draft legal text is included as Annex 3.

It should be noted that the legal drafting included with this report is drafted against the version of the Code current on the date of the Panel meeting (10 April 2003). The legal drafting was checked against all Modifications that had been approved by the Authority on the date of the Panel meeting, including those that have not yet been implemented. If the baseline of the Code changes prior to implementation of P116, or if other Modification Proposals are to be implemented at the same time as P116, the legal text may need to be amended.

## 7 ASSESSMENT

The Assessment Procedure for P116 is described in detail by the Assessment Report for P116 (Reference 1).

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<sup>2</sup> The Proposer suggested that the current need to create and process a large number of LLF files could result in errors and lead to disputes being raised. P116 seeks to simplify the process of disseminating LLF data.

## 7.1 Process Followed

The VASMG met three times (on 29 January, 20 February and 18 March 2003) to consider P116. During the first VASMG meeting on 29 January 2003, ELEXON circulated a Briefing Note which had been presented to the Panel on 14 March 2002, seeking to clarify the scope of Applicable BSC Objectives (c) and (d). The Briefing Note suggested that it is appropriate for the Panel to interpret BSC Objective (d) in a narrow sense, i.e., as being concerned with costs and risks incurred by ELEXON and BSC Agents. The Briefing Note also suggested that it is appropriate for the Panel to interpret BSC Objective (c) in a wider sense, so as to consider the effects of costs and benefits to different industry participants. The Briefing Note explicitly stated that the Panel could consider whether or not reduced costs for PDSOs might end up promoting competition in generation, supply, sale or purchase of electricity whilst also recognising that this is not a straight-forward issue.

## 7.2 Implementation Options Identified

The Modification Group noted the existence of three different file formats in which LLF data is processed by different BSC Parties and Party Agents, namely:

1. The SVA Pool File Transfer Format, which is used by certain SVAA Applications and is currently published on the BSC Website.
2. The Pool File Transfer Format, which is distinct from the SVA Pool File Transfer Format.
3. The User File Format.

Based on this information, the Modification Group determined three implementation options and issued an Impact Assessment to determine the costs and benefits to the industry of implementing P116. These three implementation options are summarised in the following table:

Implementation Option	Description
1	Publish LLF data on the BSC Website in the SVA Pool File Transfer Format only. Discontinue sending the D0265 data flow over the DTN.
2	Publish LLF data on the BSC Website in all relevant file formats. Discontinue sending the D0265 data flow over the DTN.
3	Publish LLF data on the BSC Website in the SVA Pool File Transfer Format only. Discontinue the D0265 data flow to those Parties, Party Agents and BSC Agents who can utilise the SVA Pool File Transfer Format available on the BSC Website. But continue sending the D0265 data flow (on request) to Parties or Party Agents who cannot process the SVA Pool File Transfer Format

The Impact Assessment required BSC Parties, Party Agents, BSC Agents and other impacted industry participants to estimate the costs, benefits, risks and implementation time-scales (separately for each implementation option) in terms of their own systems and processes. The results of the impact assessment indicated that many BSC Parties and Party Agents found it difficult to quantify the costs and benefits involved. For example, a respondent suggested that there would be a one-off cost but was

unable to quantify it. Another response stated that the cost would not be major but would be in the “thousands”. One BSC Party quoted an estimate of £5,000 for the one-off cost. On the other hand, some PDSOs reported a possible cost saving of between £1,500 to £12,000 per year per PDSO. However, these cost savings included DTN costs as well as process costs. Other PDSOs found it difficult to quantify the effect of P116 but supported the Proposed Modification on the grounds that their processes would become more efficient and manageable.

### **7.3 Assessment of the Implementation Options**

The Modification Group considered the three implementation options identified above. Despite its inherent simplicity, Option 1 was felt to involve higher costs for a number of Suppliers and Party Agents. A number of VASMG members suggested that while they actually supported Option 3, they would strongly prefer Option 2 over Option 1, if Option 3 was not chosen. As a result, Option 1 was rejected at the final VASMG meeting.

A number of VASMG members supported Option 3 because they felt it would be unwise to impose what is potentially a significant change on existing HHDAs at a time when there is increasing competition and when HHDAs are already grappling with other issues. These VASMG members also expressed concern that some Suppliers and Supplier Agents did not want to incur costs and risks with little corresponding benefit to their own business. It was argued that Option 3 should be chosen in order to minimise the risks and costs to some HHDAs and Suppliers. However, Option 3 was rejected by the majority of the VASMG on the grounds that it was too complex for PDSOs and did not fully realise the benefits envisioned by P116. It was also felt that Option 3 would not realise the intent of P116 with regard to the removal of the obligation on PDSOs to send LLF data individually to the relevant BSC Parties and Party Agents.

The Modification Group therefore decided that P116 should be implemented via Option 2, which was seen as a compromise between the requirements for flexibility, standardisation, centralisation and low impact on participants. It was also noted that Option 2 delivers all of the functionality of Option 1, and that Parties who favoured Option 1 would not be impacted if Option 2 were implemented. The costs associated with the preferred implementation option are summarised in Annex 1 of this report. It should be noted that SVA Agent (SVAA) systems and processes would not be impacted.

### **7.4 Assessment against the Applicable BSC Objectives**

The VASMG conducted an Assessment Procedure consultation among industry participants on whether or not P116 would better facilitate the Applicable BSC Objectives. Nine respondents (representing 41 BSC Parties) supported the Proposed Modification whilst three respondents (representing 10 BSC Parties and 1 non-BSC Party) did not support P116.

As a result, a number of VASMG members emphasised that it would be difficult to conduct a realistic cost-benefit analysis for the whole industry in order to quantify the impact of P116. It was felt that any benefits resulting from P116 would be mainly related to the (un-quantified) efficiency and convenience of having a centralised process for the publication of LLF data rather than on specific cost savings to PDSOs or the cost of a one-off systems change by some BSC Parties and Party Agents.

In light of the analysis undertaken, the VASMG considered whether or not P116 would better facilitate BSC Objectives (c) and (d) as set out in paragraph 3 of Condition C3 of the Transmission 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.

The VASMG noted that whilst P116 might promote competition in the distribution of electricity, Applicable BSC Objective (c) did not explicitly encompass competition in distribution. It was determined that this fact should be noted in the Assessment Report for the consideration of the Panel.

A number of VASMG members, including the Proposer, felt that P116 would better facilitate the achievement of BSC Objective (c) on the basis that any cost savings to PDSOs would be passed on to Suppliers in a competitive environment. It was also argued that all industry participants would benefit from simplifying and centralising the dissemination of LLF data. These VASMG members also believed that P116 would remove a barrier to market entry by simplifying the systems and processes that would be needed by new BSC Parties and Party Agents.

However, some Modification Group members doubted whether any cost savings accruing to PDSOs as a result of P116 would actually be passed on to Suppliers and ultimately to their customers. These members also doubted whether the long term benefits to HHDA's and Suppliers were sufficient to justify the one-off costs. As a result, the majority of the Modification Group felt that the effect of P116 on facilitating competition in generation, supply, sale and purchase of electricity would be difficult to agree on. The VASMG decided by a majority that P116 could not be said to have an unequivocal impact on the better achievement of BSC Objective (c), whilst a minority still believed that Objective (c) would be better facilitated by P116.

The Modification Group also decided (majority) that P116 would better facilitate BSC Objective (d) by providing a centralised facility for the dissemination of LLF data. It was also believed that P116 would improve the integrity of Settlement by eliminating a potential source of error. The VASMG agreed that P116 would reduce risks to BSCCo and eliminate potential BSCCo costs, which could otherwise be incurred as a result of avoidable error and disputes.

In conclusion, the VASMG decided (majority) that P116 should be justified on the basis of BSC Objective (d), as it was not possible to agree that P116 would have a major impact on the better achievement of BSC Objective (c). The VASMG agreed to recommend that P116 should be made and implemented on 27 November 2003 if an Authority Decision is received by 10 July 2003 and 26 February 2004 if an Authority Decision is received after 10 July 2003 but before 11 September 2003. The Implementation Date was chosen so as to ensure that P116 would be in place for the annual publication of LLF data for the 2004-2005 BSC Year.

## **7.5 Assessment of Other Issues**

To address concerns raised by the VASMG about the impact of P116 on the audit trail (e.g. the use of correct LLF files), the Modification Group also sought the BSC Auditor's view on P116. The BSC Auditor indicated that they had no major concerns, as the Audit was based on the actual data used and not on the flow of D0265 files.

The VASMG also noted that P116 would place an obligation on ELEXON to be the authorised source of LLF data for the industry. As a result, ELEXON Service Delivery would need to validate and disseminate LLF data in all three file formats. Currently, the obligation is on PDSOs to provide LLF data to all relevant Parties and Party Agents in the appropriate file format. ELEXON's current obligation is to *display* LLF data on the BSC Website in the SVA Pool File Transfer Format only. However, it should also be noted that ELEXON is currently involved in the process by which the Supplier Volume Allocation Group (SVG) approve LLF data on behalf of the BSC Panel (including validation of the files submitted), before such data can be used in Settlement. P116 does not seek to alter this procedure.

The Impact Assessment and consultation phase of the Assessment Procedure also highlighted several issues regarding the size of LLF data files (once unzipped) and the formatting of summarised LLF files. The Modification Group agreed that these issues fall outside the scope of the Assessment Procedure for P116 and should be addressed outside of the Modifications Process.

The impact of P116 on various industry participants is detailed in the Assessment Report for P116 (Reference 1).

## **8 SUMMARY OF REPRESENTATIONS**

The draft Modification Report was issued for consultation on 17 April 2003. *[to be completed following the consultation]*

## ANNEX 1 COST SUMMARY

The costs associated with P116 are summarised in the following table:

<b>BSCCo costs</b>	15 man days of software development and minor administrative costs.
<b>BSC Agent costs</b>	None.
<b>Other Industry Costs</b>	<p>The results of the impact assessment indicated that many BSC Parties and Party Agents found it difficult to quantify the costs and benefits involved.</p> <p>For example, a respondent suggested that there would be a one-off cost but was unable to quantify it. Another response stated that the cost would not be major but would be in the "thousands". One BSC Party quoted an estimate of £5,000 for the one-off cost. On the other hand, some PDSOs reported a possible cost saving of between £1,500 to £12,000 per year per PDSO. Other PDSOs found it difficult to quantify the effect of P116 but supported the Proposed Modification on the grounds that their processes would become more efficient and manageable.</p>

## ANNEX 2 REPRESENTATIONS

### A2.1 Summary of Representations

The draft Modification Report was sent out for consultation on 17 April 2003 allowing 5 working days for Parties to respond to the consultation. *[to be completed following the consultation]*