



January 2003

MODIFICATION REPORT
MODIFICATION PROPOSAL P108 –
Modification to enable BSCCo to
prepare for the implementation of
British Electricity Trading and
Transmission Arrangements
(BETTA)

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

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I DOCUMENT CONTROL

a Authorities

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b Distribution

| Name | Organisation |
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| Each BSC Party | Various |
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| The Gas and Electricity Markets Authority | Ofgem |
| Each BSC Panel Member | Various |
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| Core Industry Document Owners | Various |

c References

| Ref. | Title | Author | Issue date |
|------|-------------------------------------|-----------------------------|------------|
| 1 | Modification Proposal P108 | British Gas Trading Limited | 01/11/02 |
| 2 | Initial Written Assessment for P108 | Change Delivery | 08/11/02 |
| 3 | P108 Consultation Document | Change Delivery | 19/11/02 |
| 4 | P108 Assessment Report | Change Delivery | 06/12/02 |

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1 SUMMARY AND RECOMMENDATION

1.1 Recommendation

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

Proposed Modification P108 should be made with an Implementation Date of 2 Business Days after the date of the Authority's decision.

1.2 Background

Modification Proposal P108 seeks to authorise BSCCo to provide or procure assistance to the Authority in connection with the development of British Electricity Trading and Transmission Arrangements (BETTA). The Proposer suggests that BSCCo must contribute to BETTA implementation to increase assurance that the target BETTA implementation date of April 2004¹ will be met.

Modification Proposal P108 (Reference 1) was submitted by British Gas Trading Ltd on 1 November 2002.

1.3 Rationale for Recommendation

The Panel has considered and agreed to the recommendation of the GSMG that Proposed Modification P108 would enable BSCCo to undertake work on BETTA in accordance with the terms set out in the Transmission Licence Condition C3.3. Therefore, the Panel concluded that Proposed Modification P108 better facilitates the achievement of the following Applicable BSC Objective set out in Condition C3.3 of the Transmission Licence as follows:

e) without prejudice to the foregoing objectives and subject to paragraph 3A, the undertaking of work by BSCCo (as defined in the BSC) which is:

- (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and
- (ii) relevant to the proposed GB wide balancing and settlement code;

and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

Paragraph 3A, referenced by paragraph (e) above states:

3A For the purposes of, and without prejudice to, paragraph 5(a), in order to better facilitate achieving the objective referred to in paragraph 3(e), any modification to the BSC providing for the undertaking of work by BSCCo pursuant to paragraph 3(e) must include express provision that:

¹ On 16 January 2003, the DTI issued a press release stating that the DTI were working to the creation of a Great Britain-wide electricity market in October 2004 and confirmed that it intended to have in place new arrangements by April 2005. The Panel was made aware of the October 2004 target date prior to its consideration of the P108 draft Modification Report.

- (i) such work is proposed by BSCCo and approved by the Authority prior to its commencement; and
- (ii) the costs of such work as may be carried out by BSCCo shall be identified and recorded separately by BSCCo.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Panel, in accordance with the terms of the Balancing and Settlement Code ('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

3 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P108 (Reference 1) was submitted by British Gas Trading Ltd on 1 November 2002.

BSCCo produced an Initial Written Assessment (Reference 2) and presented it at the Panel meeting on 14 November 2002. The Panel determined that P108 should proceed to a 1-month Assessment Procedure.

The Governance Standing Modification Group (GSMG) met on 15 November 2002 to discuss the issues raised in the Initial Written Assessment (Reference 2) and any other issues that the GSMG identified; to consider the instructions for the drafting of legal text; and to agree the consultation process to be followed.

A consultation document (Reference 3) seeking BSC Party and other interested industry participants' opinions on whether or not the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives was issued on 19 November 2002, with a deadline for the receipt of responses of 26 November 2002.

The consultation sought views on whether P108 better facilitated the Applicable BSC Objectives, and also on three specific issues as follows.

- a) P108 required clarification to determine an appropriate end point to the authorisation given to BSCCo to work on BETTA. Respondents' views were sought on three different options for the duration of authorisation.
- b) P108 required clarification to determine precisely how initial funding of BSCCo's BETTA costs would be made. Respondents' views were sought on three options (one of which was considered to constitute a refinement of the Modification Proposal and the other two of which were considered by GSMG to form potential Alternative Modifications).
- c) The process by which reports would be made to BSC Parties, on the progress and costs of the BETTA work undertaken by BSCCo, needed consideration. Respondents were asked to confirm whether a proposed reporting route using existing BSCCo reports was considered to be adequate.

Respondents were also asked for their views on whether GSMG should be considering any other options and whether there were other issues they wished to raise.

A High Level Impact Assessment was also requested from Parties and the Transmission Company on 19 November 2002 with a closing date for responses of 26 November 2002.

The GSMG met for a second time, on 29 November 2002, to discuss the responses to the consultation and impact assessments; to determine its recommendations to the Panel; and to assess the draft legal text.

In the light of the consultation responses, the GSMG considered and reached conclusions upon each of the above three specific issues. It also concluded that Proposed Modification P108 better facilitated the achievement of Applicable BSC Objective (e) and recommended to the Panel meeting held on 12 December 2002 that Proposed Modification P108 should be made with an Implementation Date of 2 Business Days after the date of the Authority's decision.

The Panel considered the P108 Assessment Report (Reference 4) at its meeting on 12 December 2002. The Panel agreed that P108 should proceed to the Report Phase in accordance with Section F2.7 of the Code; and agreed that the draft Modification Report contain a provisional recommendation that Proposed Modification P108 should be made with an Implementation Date of 2 Business Days after the date of the Authority's decision.

The Panel considered the P108 draft Modification Report at its meeting on 16 January 2003. The Panel approved the draft Modification Report and confirmed its recommendation that the Proposed Modification P108 should be made with an Implementation Date of 2 Business Days after the date of the Authority's decision.

4 DESCRIPTION OF PROPOSED MODIFICATION

P108 seeks to authorise BSCCo to provide or procure assistance to the Authority in connection with the development of BETTA. The Proposer suggests that BSCCo must contribute to BETTA implementation to increase assurance that the target BETTA implementation date of April 2004 (see footnote 1 on page 4) will be met.

The Modification Proposal P108 proposes the following.

- a) **Authorisation for BSCCo to assist with BETTA and the main areas of such work.** P108 proposes that BSCCo be authorised to provide or procure assistance to the Authority in connection with the development and implementation of BETTA, primarily in the following areas:
 - i) identification of the changes to systems and contracts of BSC Agents required to support the implementation of BETTA;
 - ii) progression of the above changes;
 - iii) identification of the changes required to the drafting of the BSC and associated Subsidiary Documents in order to support the implementation of BETTA; and
 - iv) planning and preparing for the transition (from the existing arrangements in England and Wales and in Scotland) to and introduction of a GB BSC.
- b) **Scope of BSCCo work on BETTA to be limited.** The scope of the work undertaken by BSCCo should be limited to that necessary and timely for the effective implementation of BETTA and that is relevant to the proposed GB BSC.
- c) **Authorisation to be time limited.** The authorisation to be given by this Modification (if approved) is to be time-limited, such that "beyond an appropriate break point (e.g. the

appointment of a GB BSCCo)" BSCCo would no longer be permitted to carry out BETTA related work. In the P108 Assessment Report (reference 4), the GSMG concluded that the duration of the authorisation should cease when Applicable BSC Objective (e), recently introduced into the Transmission Licence, ceases to have force.

- d) **BSCCo utilisation of BSC Agents and BSC data and systems in connection with such work.** BSCCo would be able to request services from BSC Agents, and use and disclose BSC data and systems for the purposes of providing assistance to the Authority.
- e) **Approval process.** Each area of work must be proposed by BSCCo and approved by the Authority prior to its commencement.
- f) **Costs and funding.** Costs incurred by BSCCo in providing such assistance to the Authority must be separately identified. In the P108 Assessment Report (Reference 4), the GSMG concluded by a majority with one member dissenting, that BSCCo's BETTA costs should be funded under existing processes as BSC Costs under Section D of the BSC.
- g) **Monitoring and reporting on BSCCo work.** The BSCCo Board should monitor and control the company's activities and costs and BSCCo should make available to BSC Parties regular reports on the progress and costs of its BETTA activities. In the P108 Assessment Report (Reference 4), the GSMG concluded that reporting should be done using existing BSCCo reporting mechanisms. That is through an additional line on BETTA costs in the attachment to BSCCo's monthly invoices; through BSCCo's monthly finance reports (put on the BSCCo website); through BSCCo's quarterly reports (ditto); and through the BSCCo report to the BSC Panel (ditto).

5 RATIONALE FOR PANEL RECOMMENDATION

At its meeting on 12 December 2002, the Panel discussed the P108 Assessment Report (Reference 4).

In the course of the discussion of P108, individual Panel members queried whether and when eventual cost recovery² of BETTA costs would be considered by Ofgem; whether the work undertaken by BSCCo on preparing for BETTA would compromise its existing obligations in respect of England and Wales; and also views were expressed on the ultimate beneficiaries of BETTA.

The Ofgem representative at the Panel meeting confirmed that there would be a consultation on BETTA cost recovery. On the question of the effect of BETTA work on BSCCo, it was noted that the Transmission Licence and proposed legal text for P108 required that BSCCo's BETTA work must be without prejudice to the discharge of its other functions and responsibilities. It was also noted that BSCCo would raise the issue itself if, in the event, it perceived difficulties arising in this respect.

Having considered the P108 Assessment Report, the Panel endorsed its recommendations.

At its meeting on 16 January 2003, the Panel discussed the draft P108 Modification Report. A Panel member sought assurance that reporting on BETTA work by BSCCo would be at least monthly. It was confirmed that reporting of BSCCo's BETTA work had been consulted upon during the Assessment Procedure, and that it was intended that reporting would be made existing using the existing BSCCo reporting mechanisms, e.g. BSCCo's monthly finance reports and the BSCCo report to the Panel (see Section 4).

² Assumed to be part of the proposed Great Britain BSC once BETTA is implemented.

The Panel approved the draft Modification Report and confirmed its recommendation that the Proposed Modification P108 should be made with an Implementation Date of 2 Business Days after the date of the Authority's decision.

6 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

The changes to the legal text of the Code for Proposed Modification P108 are contained in Annex 1. This legal text was reviewed by the GSMG during the Assessment Procedure. This text was made against version 2.0 of Section C of the Code. As a result of the Authority's direction that the Code should be modified to incorporate Modification Proposal P101³, Section C version 2.0 will be modified from 23 January 2003. However, this change will not require the legal text for Proposed Modification P108 to be amended. If the baseline of the Code undergoes further change prior to the implementation of P108, or if other Modification Proposals are to be implemented at the same time, then the legal text may need to be amended.

7 ASSESSMENT

The Assessment Procedure for P108 lasted 1 month and full details of the assessment can be found in the P108 Assessment Report (Reference 4).

The GSMG believed that Proposed Modification P108 would enable BSCCo to undertake work on BETTA in accordance with the terms set out in the Transmission Licence Condition C3.3. Therefore, the GSMG concluded that Proposed Modification P108 better facilitated the achievement of Applicable BSC Objective (e) set out in Condition C3.3 of the Transmission Licence (see Section 1 of this Report).

Having consulted upon three specific issues, the GSMG also concluded the following.

- a) The duration of the authorisation of BSCCo to work on BETTA should be linked to the duration of Applicable BSC Objective (e) so that the duration of any authorisation to BSCCo to work on BETTA would cease when Applicable BSC Objective (e) in the Transmission Licence ceased to have force. The legal text proposed for P108 incorporates this.
- b) The initial funding of BSCCo's BETTA costs should be made under existing processes as BSC Costs under Section D of the BSC, i.e. after funding BSCCo's costs through Specified and SVA Charges, all remaining BSCCo costs are funded by each Party in proportion to its share of aggregate Credited Energy Volumes in each month. The GSMG concluded (by a majority with one dissenting in relation to the second option below) that the potential Alternative Modifications did not better facilitate the Applicable BSC Objectives. The potential Alternative Modifications considered were: a) initial funding by all BSC signatories; or b) by "BSC Parties (or BSC Parties with sister or parent companies) serving the Scottish electricity supply market in proportion to a snapshot of current market shares by volume".
- c) BSCCo should make information (progress and costs) on work it was undertaking on BETTA available to BSC Parties using existing reporting mechanisms, i.e. through an additional line on BETTA costs in the attachment to BSCCo's monthly invoices; through BSCCo's monthly finance reports (put on the BSCCo website); through BSCCo's quarterly reports (ditto); and through the BSCCo report to the BSC Panel (ditto).

Full details of the rationale and discussions leading up to these conclusions can be found in the P108 Assessment Report (Reference 4).

³ The Authority's direction in respect of P101 was issued on 2 January 2003.

With regards to the cost of implementing the Proposed Modification, Proposed Modification P108 is an enabling modification. Therefore, the direct costs of implementing the Proposed Modification, i.e. those necessary to implement the modification, irrespective of whether any BETTA work is done by BSCCo, are associated with changing the legal text of the BSC and BSCCo's procedures. As the Panel has endorsed the GSMG recommendation that the existing BSC Costs recovery route and existing BSCCo reporting routes will be used, there will be little additional impact on BSCCo procedures as a result of implementing this modification. If Proposed Modification P108 is approved and, as a result, BSCCo prepares for, and/or undertakes, BETTA work for the Authority, there will be consequential costs incurred. It is BSCCo's intent as part of undertaking any BETTA work to report on budgeted and actual costs for each area of work.

8 SUMMARY OF REPRESENTATIONS

A summary and copies of the original representations received and considered by the GSMG under the initial consultation on this Modification Proposal can be found in the P108 Assessment Report (Reference 4). This Modification Report should be read in conjunction with that Assessment Report.

8.1 Report Phase Consultation

This Section contains a summary of the representations made in respect of the draft Modification Report that was issued for consultation on 16 December 2002 with a closing date for responses of 12 noon on 3 January 2003.

Eight responses (on behalf of 35 BSC Parties) were received in respect of the draft Modification Report for Modification Proposal P108. One of these (1 Party) expressed no comment and is not included further in the summary below.

Although the concerns of some Parties expressed during the Assessment Procedure have been repeated, BSCCo believes that no new substantive issues have been raised as a result of this consultation.

Four respondents, representing 11 BSC Parties, supported the recommendation that the Proposed Modification be made: two (4 Parties) on the grounds that it better facilitates Applicable BSC Objective (e) and one (6 Parties) that it better facilitates the Applicable BSC Objectives, without being specific as to which. Three other respondents representing 23 Parties also supported the Modification Proposal in principle but with concerns. Of these three: one (4 Parties) expressed reservations about "unresolved policy issues"; one (15 Parties) thought there was a "fundamental flaw...in regard to the allocation of initial funding costs"; and one had "serious concerns" about the costs and funding of the BETTA project (details follow).

No respondent opposed the implementation of P108, although the one respondent (4 Parties) believed that Proposed Modification P108 should not be implemented until the debate on cost recovery had been held, otherwise there would be detriment to Applicable BSC Objective (c).

The response, representing 4 BSC Parties, expressing concern over unresolved policy issues did not specify what these issues were. However, it is understood from a subsequent conversation with the respondent that the concerns are not related to the Proposed Modification itself, but rather to the wider BETTA proposals.

The respondent, representing 15 BSC Parties, who supported P108 “in principle”, but noted a “fundamental flaw” in the allocation of initial funding costs, agreed that P108 promotes Applicable BSC Objectives (c) and (e). However, it expressed concern that if BETTA does not go ahead, competition would be undermined as England & Wales companies would have funded BETTA costs. The respondent noted that it had proposed an alternative method of initial funding whereby BETTA implementation costs would be funded only by those Parties participating in the Scottish market. (This potential Alternative Modification was discussed and consulted upon during the Assessment Procedure for P108 – see Reference 4.) This respondent also expressed concern in relation to the availability of information on Scottish market shares, which would be needed to implement its suggested alternative.

The respondent (4 Parties) who had “serious concerns” believed that the wider issue of the costs and funding of the BETTA project should be addressed immediately, noting that “Ofgem has so far insisted” that this is “outside the scope of the BSC”.

Another respondent, representing 1 BSC Party, also expressed support for the concerns raised during the Assessment Procedure (at the GSMG and in consultation responses) with regard to cost recovery, but recognised that P108 was related to initial funding, rather than overall BETTA cost recovery.

Two respondents, representing 5 BSC Parties, explicitly supported the proposed implementation date. No other respondent expressed a view on the proposed implementation date.

Other comments on the detail of Proposed Modification P108 were as follows.

One respondent, representing 1 Party, expressed concerns that the termination of Applicable BSC Objective (e) could be a cumbersome means of ending BSCCo's authorisation to work on BETTA, although pragmatic. In particular, issues might arise if ELEXON were not appointed as BSCCo under the GB System Operator. The respondent also stated that it might be appropriate for the GB System Operator once appointed to instruct the BSCCo on BETTA development rather than Ofgem.

Another respondent, representing 15 Parties, expressed support for a time-limited authorisation linked to the duration of Applicable BSC Objective (e) on the grounds that an open-ended duration might lead to questions as to why the work had not been subject to competitive tender. One respondent, representing 6 Parties, expressed support for the earlier of the ending of Applicable BSC Objective (e) and BETTA go-live.

Two respondents, representing 21 Parties, expressed support for the regular reporting and monitoring of BSCCo's BETTA work. One of these (15 Parties) suggested it should be the Panel's role to monitor this reporting to guarantee transparency. The other (6 Parties) suggested that the Panel is rigorous in ensuring that BSCCo met its primary duties, particularly when considering the BSCCo Business Strategy.

One respondent (6 Parties) expressed concern that BSCCo's BETTA work may detract from its duties and obligations under the current BSC and hence be detrimental to Applicable BSC Objective (d). One respondent (3 Parties) welcomed the fact that BETTA work will not be permitted to prevent BSCCo performing its other functions. That respondent also welcomed the approval process and cost separation of BETTA work.

Two respondents, representing 9 Parties, mentioned the proposed legal text for Proposed Modification P108. One (6 Parties) noted that it had no comments; and the other (3 Parties) noted that it assumed that the text requiring certain information and work may be confidential between BSCCo and the Authority did not include any costs associated with that information and work. With regard to this last point, BSCCo has discussed this with the respondent and it is understood that the concerns related to the reporting of costs incurred in working on BETTA. It is difficult to envisage a situation in which the aggregate BETTA costs could not be reported as such costs are to be funded by BSC Parties, although in some circumstances the Authority might, in theory, instruct other information (including individual cost items) not to be reported.

ANNEX 1 – PROPOSED TEXT TO MODIFY THE CODE

Attached as a separate document.

ANNEX 2 – REPRESENTATIONS

Attached as a separate document.