

Modification Proposal P108: To enable BSCCo to prepare for the implementation of British Electricity Trading and Transmission Arrangements (BETTA)

A consultation document developed on behalf of the Governance Standing Modification Group (GSMG)

For Attention of: BSC Parties, Party Agents and non-BSC Parties

Date of Issue: 19 November 2002

Responses Due: 5pm Tuesday 26 November 2002 (To: Modifications@elexon.co.uk)

1. INTRODUCTION

Modification Proposal P108 'Modification to enable BSCCo to prepare for the implementation of British Electricity Trading and Transmission Arrangements (BETTA)' (P108) was submitted on 1 November 2002 by British Gas Trading Limited. P108 proposes to authorise BSCCo to assist the Authority in connection with the development and implementation of BETTA.

The Proposer believes that it will better facilitate Applicable BSC Objective (e). This is a new Objective that was added to NGC's Transmission Licence on 30 October 2002. It states:

- (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, referred to by paragraph (e) above states the following.

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:

- (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.

In adding this Objective, Ofgem made statements in relation to the undertaking of work by BSCCo (ELEXON) on BETTA, that may be considered relevant to a consideration of this Modification Proposal P108. The statements are included in two documents:

- “ELEXON and the introduction of BETTA, Conclusions on the Proposed Modification to NGC’s Transmission Licence and Consultation under Section 11A Notice to modify NGC’s Transmission Licence”, published by Ofgem on 18 September 2002; and
- “Notice in accordance with the Authority’s duty to give reasons by virtue of section 49A of the Electricity Act 1989, the following explains why the Authority has modified condition C3 of National Grid Company’s Transmission Licence”, published by Ofgem on 30 October 2002.

The Initial Written Assessment (IWA) was produced and presented to the Balancing and Settlement Code Panel at its meeting on 14 November 2002. The IWA recommends that the Modification Proposal be submitted to the Assessment Procedure and that this work be undertaken by Governance Standing Modification Group (GSMG). The BSC Panel agreed this recommendation.

The IWA identified impacts, in respect of legal documentation, would be changes to the BSC Sections C and D (and possibly in addition, Sections E and X). The other area of impact would be on ELEXON procedures, in relation to: the process for gaining approval of BETTA work proposed by BSCCo; the separate identification of the costs of BSCCo’s BETTA work; and the reporting of progress on, and costs of, its BETTA work to BSC Parties.

2. P108 PROPOSALS AND MODIFICATION GROUP DISCUSSION

Below is set out the main features of the proposals made by Modification Proposal P108 and, where appropriate, the considerations of the GSMG at its meeting on 15 November 2002, that are relevant to the consultation questions.

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:

- identification of the changes to systems and contracts of BSC Agents required to support the implementation of BETTA;
- progression of the above changes;
- identification of the changes required to the drafting of the BSC and associated Subsidiary Documents in order to support the implementation of BETTA; and
- planning and preparing for the transition (from the existing arrangements in England and Wales and in Scotland) to and introduction of a GB BSC.

Scope of BSCCo work on BETTA to be limited. P108 proposes that 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.

Authorisation to be time limited. P108 proposes that 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.

At its first meeting to consider P108 on 15 November 2002, the Governance Standing Modification Group (GSMG) considered a number of different options. In relation to the suggestion made in Modification Proposal P108 that the authorisation might cease upon the appointment of the GB BSCCo, it was noted that the detail of the transition from NETA in England & Wales to BETTA across Britain was not yet known. This might mean that, for example, the end point of authorisation might need to be sufficiently flexible to allow a period with both a BSCCo and a GB BSCCo with a handover between the two parties. In this case, the appointment of the GB BSCCo would not be an appropriate end point for authorisation of the BSCCo to work on BETTA.

The GSMG also noted that in the Ofgem document concluding on changes to the NGC Transmission Licence¹, paragraph 5.15, the statement that “Ofgem agrees that the licence amendment should remain in force only for the period necessary to give effect to the BETTA proposals.” Therefore, GSMG considered that a link to the new Applicable BSC Objective (e), might deliver an appropriate end point, such that when this Objective (e) ceased to be in force, then the BSCCo authorisation should also cease.

There was also a view that any sunset clause was inappropriate, i.e. there should be no end point to the authorisation.

The GSMG decided to consult parties on three options, as follows.

1. A fixed date, for example 31 March 2005 (one year beyond the current planned BETTA implementation date to allow for slippage in the BETTA timetable), beyond which the authorisation to BSCCo to undertake work on BETTA would cease.
2. The authorisation given to BSCCo would cease when Applicable BSC Objective (e), recently introduced into the Transmission Licence ceased to have force.
3. There should be no defined end point to the authorisation given to BSCCo.

BSCCo utilisation of BSC Agents and BSC data and systems in connection with such work. P108 proposes that 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.

Approval process. P108 proposes that each area of work must be proposed by BSCCo and approved by the Authority prior to its commencement. The NGC Transmission Licence explicitly requires that any modification proposing to allow BSCCo to work on BETTA shall require that such work is proposed by BSCCo and approved by the Authority prior to its commencement in order to better facilitate Applicable BSC Objective (e).

Costs and funding. P108 proposes that costs incurred by BSCCo in providing such assistance to the Authority must be separately identified but that such costs would be borne by all BSC Parties. The NGC Transmission Licence explicitly requires that any modification proposing to allow BSCCo to work on BETTA shall require BSCCo to identify and record separately the costs of such work in order to better facilitate Applicable BSC Objective (e).

¹ “ELEXON and the introduction of BETTA, Conclusions on the Proposed Modification to NGC’s Transmission Licence and Consultation under Section 11A Notice to modify NGC’s Transmission Licence”, published by Ofgem on 18 September 2002.

At its first meeting to discuss P108 on 15 November 2002, the GSMG discussed initial funding of any BETTA work undertaken by BSCCo.

Initial funding means the ongoing funding of BSCCo's BETTA working costs by BSC Parties. This is distinct from cost recovery, which is a process by which such costs may be re-allocated (to different parties and/or in different proportions for example), probably under the future GB BSC. There are precedents for this, for example NETA development.

It was determined at the BSC Panel meeting on 14 November that in any consideration of P108, BETTA cost recovery was ultra vires, i.e. that only initial funding could be considered in relation to this Modification Proposal. It is understood that BETTA cost recovery will be the subject of a separate consultation by Ofgem².

The GSMG considered various options for initial funding, including recovering the BSCCo's BETTA costs 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. This was seen as a refinement of the P108 Modification Proposal.

The GSMG considered whether this apportionment meant that some BSC Parties would not bear any of the BSCCo's BETTA costs, e.g. those who did not have Credited Energy Volumes would not contribute. The point was also made that this feature was not new. The GSMG considered how costs might be apportioned over those parties who did not have Credited Energy Volumes, in particular those parties who were trading but had balanced positions. It was determined that, if this were an option, it would have to be simple to operate. The GSMG determined to consult on an initial funding arrangement that would be based upon charging a common fee to each BSC signatory as an alternative option to the previously suggested existing BSC Cost route. It was noted that this would also catch other parties, for example distribution businesses, not only those with balanced trading positions. The monthly fee suggested would be based upon (estimated annual costs to be incurred by BSCCo in undertaking BETTA work) divided by (number of BSC signatories). This could be a potential Alternative Modification to P108.

GSMG also considered whether the initial funding of BETTA costs should be borne by only those BSC Parties with interests in the Scottish electricity market. A member of the GSMG suggested this funding option as being appropriate in case BETTA were not to be implemented (and presumably by inference, when there would be no eventual cost recovery re-allocation). It was also suggested as being appropriate if BETTA was to the benefit of Scottish parties, but members of the GSMG did not all agree that only existing Scottish parties would benefit under BETTA. Some thought that the benefits of BETTA were intended to be GB-wide.

The proposal that initial funding of BETTA costs would be borne by those BSC Parties with interests in the Scottish electricity market was based upon the technique suggested by Modification Proposal P97³ (which was proposed and subsequently withdrawn in September 2002). This proposed that BSCCo's BETTA costs

² See, for example, the Notice modifying NGC's Transmission Licence issued by the Authority on 30 October 2002.

³ Modification Proposal P97 "Modification to enable ELEXON to prepare for the implementation of British Electricity Trading and Transmission Arrangements (BETTA)" submitted by Powergen UK plc on 2 September 2002, was withdrawn by the Proposer on 11 September 2002.

should be initially funded 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".

The GSMG discussed the practicality of this approach noting that Scottish Electricity Settlements Ltd. (SESL) was not permitted at present to release data on Scottish market shares. However, it was thought that some commercial data organisations might already publish data on Scottish market shares. The GSMG did not, at this stage, come to definitive conclusions on the practicalities of this approach. The proposer of this option agreed to investigate the practicalities of ascertaining Scottish market shares. The GSMG agreed to consult on the principle of initial funding from only BSC Parties with Scottish electricity market interests, in the manner proposed by Modification Proposal P97. This would be another potential Alternative Modification to P108.

Monitoring and reporting on BSCCo work. P108 proposes that 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.

At its first meeting to consider P108 on 15 November 2002, the GSMG considered a reporting process by which BSCCo (ELEXON) could make information (progress and costs) on work it was undertaking on BETTA available to BSC Parties. This used existing reporting mechanisms, i.e. through an additional line on BETTA costs in the attachment to ELEXON's monthly invoices; through ELEXON's monthly finance reports (put on the ELEXON website); through ELEXON's quarterly reports (ditto); and through the ELEXON report to the BSC Panel (ditto).

The GSMG supported the use of existing reporting mechanisms for reporting on BSCCo's BETTA work. The GSMG suggested that budgeted and actual expenditure could be reported against each BETTA work package. It was noted that the ELEXON Board would scrutinise the BETTA work, and that ELEXON would continue to report and give assurance to the BSC Panel on its ongoing England & Wales obligations.

3. PAPERS RELATING TO P108

Copies of all papers relating to Modification Proposal P108 and its progression through the Assessment Procedure can be found on the BSC Website (<http://www.elexon.co.uk>).

4. CONSULTATION

This consultation seeks respondents' views on the issues raised by the Modification Proposal and in particular, whether the Modification Proposal better facilitates the Applicable BSC Objectives.

For information the Applicable BSC objectives were amended on 30 October 2002 and now include an additional Objective (e) as shown below.

The Applicable BSC Objectives are set out in Condition C3.3 of NGC's Transmission Licence, as follows:

- (a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- (b) the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system;
- (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;

- (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements;
- (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, referred to by paragraph (e) above states the following.

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:

- (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.

You are invited to provide a response in respect of the questions on the attached pro-forma.

Please send your response by **17:00 Tuesday 26 November 2002** to Modifications@elexon.co.uk

Please entitle your email '**P108 Assessment Consultation**'

Any queries on the content of the consultation pro-forma should be addressed to Steve Wilkin (020 7380 4302), email address: steve.wilkin@elexon.co.uk