

## Stage 03: Assessment Consultation

# P282 'Allow MVRNs from Production to Consumption or Vice Versa'

P282 proposes to allow energy reallocated via a Metered Volume Reallocation Notification (MVRN) to be reallocated to either a Production or Consumption Energy Account regardless of the BM Unit's P/C Status.

This would remove the current restriction that energy can only be reallocated from a Production BM Unit to a Production Energy Account, or a Consumption BM Unit to a Consumption Energy Account.

This Assessment Consultation for P282 closes:

**5pm on Friday 24 August 2012**

The Workgroup may not be able to consider late responses.



The Workgroup:

- Initially recommends **Approval** of P282



High Impact:

- Metered Volume Reallocation Notification Agents (MVRNAs)
- Energy Contract Volume Aggregation Agent (ECVAA)



Medium Impact:

- BSC Trading Parties
- Settlement Administration Agent (SAA)



Low Impact:

- ELEXON

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

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## About this Document

The purpose of this P282 Assessment Consultation is to invite BSC Parties' and other interested parties' views on the merits of P282. The P282 Workgroup will then discuss the consultation responses, before making a recommendation to the Panel on 11 October 2012 on whether to approve P282.

There are 4 parts to this document:

- This is the main consultation document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also summarises the Workgroup's key views on the areas set by the Panel in its Terms of Reference.
- Attachment A contains more information on the Workgroup's analysis and assessment. It includes the detailed analysis carried out by the Workgroup on the effects of P282. It also contains details of the Workgroup's membership and full Terms of Reference.
- Attachment B contains the draft redlined changes to the BSC for P282.
- Attachment C contains the specific questions on which the Workgroup seeks your views. Please use this form to provide your response to these questions, and to record any further views/comments you wish the Workgroup to consider.

## Further Information

More information is available in:

Attachment **A**: Detailed Assessment

Attachment **B**: Draft Legal Text

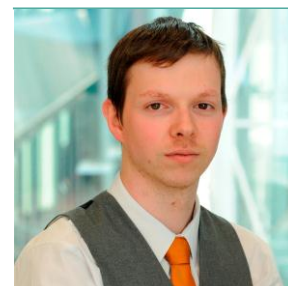
Attachment **C**: Assessment Consultation Questions

For further information, including a complete version of the (non-confidential) impact assessment responses received, please see the [P282](#) page of the ELEXON website.



### Any questions?

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### Why Change?

Under the existing rules, MVRNs can only reallocate a Production BM Unit's Credited Energy Volumes to another Production Energy Account, or a Consumption BM Unit's Credited Energy Volumes to another Consumption Energy Account. Energy cannot be reallocated from a Production BM Unit to a Consumption Energy Account, or vice versa, via MVRNs. Any Party wanting to move energy in this way must use Energy Contract Volume Notifications (ECVNs) to trade volumes at the Energy Account (rather than BM Unit) level.

### Solution

P282 proposes to also allow Parties to submit MVRNs which reallocate energy from a Production BM Unit to a Consumption Energy Account or vice versa. This could be the Lead Party's own Energy Account or that of another Party.

P282 is optional in that it enables, but does not require, Parties to change the way in which they use MVRNs.

The Workgroup has considered other possible alternative solutions, but believes that these would be higher-impact and less cost-efficient ways of delivering the same outcome.

### Impacts & Costs

P282 impacts the BSC, the Energy Contract Volume Aggregation Agent (ECVAA) and Settlement Administration Agent (SAA) Service Descriptions and User Requirement Specifications, and the NETA Interface Definition and Design Part 2 document.

It will impact Metered Volume Reallocation Notification Agents (MVRNAs), BSC Trading Parties, the ECVAA and SAA, and ELEXON.

The central implementation cost of P282 is £140k, comprising £125k in ECVAA and SAA costs and £15k in ELEXON effort. Individual Party costs range from zero to £130k. As P282 is optional, these are costs which would be incurred by Parties wishing to take advantage of the solution (Parties who don't will not incur any implementation costs).

### Implementation

The proposed Implementation Dates for P282 are 7 November 2013 (November 2013 BSC Systems Release) or 27 February 2014 (February 2014 BSC Systems Release), depending on when Ofgem's decision is received. The overall implementation lead time is approximately 9 months.

### The Case for Change

By majority, the Workgroup believes that P282 would better facilitate the Applicable BSC Objectives. It therefore initially recommends that P282 is approved. The Workgroup believes that the arguments for and against P282 are finely balanced for the reasons outlined in Section 6, though the majority of the Workgroup believes P282 to better the baseline as the analysis shows that P282 would reduce overall balancing charges.



### What are the existing rules?

Under the existing rules, introduced by the New Electricity Trading Arrangements (NETA) in 2001, Parties are required to keep their licensed Production (Exports to the GB Total System) separate from their licensed Consumption (Imports from the GB Total System). This requirement to treat the two sides of the market separately is one of the key principles of NETA.

Each Party is therefore allocated two Energy Accounts: a Production Energy Account and a Consumption Energy Account. In addition, each BM Unit is classed as either a Production BM Unit or a Consumption BM Unit (its P/C Status).<sup>1</sup> If a BM Unit is a Production BM Unit, its positive Credited Energy Volumes ( $QCE_{iaj}$ ) will, by default, be allocated to the Lead Party's Production Energy Account. Similarly, a Consumption BM Unit's negative Credited Energy Volumes will be allocated to the Lead Party's Consumption Energy Account. If the Party takes no other action, both volumes will be considered as separate imbalances and will be subject to separate imbalance charges. Parties are therefore incentivised to submit trades (either between their own Energy Accounts or with other Parties) to balance their position. In an ideal world, each Party's trades would exactly balance its position to a zero net volume. However, where this is not possible (due to any uncertainties over what volume its generators will produce or its customers consume), Parties will adopt their own trading/hedging strategies to minimise their imbalance exposure based on their best forecasts of their volumes.

There are two types of trades with Parties can use to balance their position: Metered Volume Reallocation Notifications (MVRNs) and Energy Contract Volume Notifications (ECVNs). Both types of trade must be made before Gate Closure for the relevant Settlement Period.

### What are MVRNs?

These allow the Lead Party of a BM Unit to reallocate some or all of that BM Unit's Credited Energy Volumes to the Energy Account of another Party (known as the Subsidiary Party). This Subsidiary Party would be responsible for any Trading Charges associated with these volumes, and would be exposed to imbalance charges if they do not in turn balance their position.

There are two ways of specifying the amount to be reallocated through an MVRN:

- **Percentage volume:** A 'percentage volume' MVRN will transfer a percentage of the BM Unit's  $QCE_{iaj}$  in that Settlement Period to the Subsidiary Party. It is therefore not possible to know the exact amount of energy that will be reallocated until after the BM Unit's  $QCE_{iaj}$  has been calculated. However, this does allow the Lead Party to reallocate 100% of a BM Unit's  $QCE_{iaj}$  to a Subsidiary Party without needing to know what the value of  $QCE_{iaj}$  will be in each Settlement Period. These are therefore the most common form of MVRNs. It is possible to transfer a BM Unit's  $QCE_{iaj}$  across multiple Subsidiary Parties in this way, but the total amount of energy transferred through percentage MVRNs cannot exceed 100% of the BM Unit's  $QCE_{iaj}$ .

### What is the issue?

MVRNs can only reallocate a Production BM Unit's Credited Energy Volumes to another Production Energy Account, or a Consumption BM Unit's Credited Energy Volumes to another Consumption Energy Account. Energy cannot be reallocated from Production to Consumption or vice versa.

<sup>1</sup> The P/C Status of some BM Units (Interconnector BM Units and Supplier BM Units) is fixed by the BSC and cannot be changed; Exempt Export BM Units relating to Exemptable Generating Plant choose whether to be

- **Fixed volume:** A 'fixed volume' MVRN will transfer a specified volume of energy to the Subsidiary Party. This volume will be reallocated regardless of the BM Unit's  $QCE_{iaj}$  in that Settlement Period, and so it is possible to transfer volumes that are larger or in the opposite direction to the BM Unit's  $QCE_{iaj}$ .

Multiple MVRNs, percentage and fixed, can be applied to a single BM Unit in a given Settlement Period. Once all the reallocations have been made, the remaining Credited Energy Volume is allocated to the Lead Party.

Consistent with the NETA requirement to keep Production and Consumption separate, MVRNs can only be made to an Energy Account which aligns with the BM Unit's P/C Status – i.e. Credited Energy Volumes from a Production BM Unit can only be reallocated to a Production Energy Account, and Credited Energy Volumes from a Consumption BM Unit can only be reallocated to a Consumption Energy Account. It is therefore not currently possible for the same Party to be the Lead and Subsidiary Party to an MVRN (i.e. it cannot have an MVRN between its two Energy Accounts).

Many Trading Party Groups use 100% MVRNs to 'consolidate' all their volumes in a given direction in a single Energy Account. For example, a Party who has multiple generation sites/BM Units split across multiple Party IDs can use MVRNs to allocate all of the energy into a single Production Energy Account. This makes it easier for them to balance their position, as they then only have to trade that one consolidated Production volume, rather than trading multiple Production Energy Accounts individually. If the Trading Party Group also has Consumption volumes, then it can similarly consolidate these in a single Consumption Energy Account. However, it would still need to trade this consolidated Consumption separately from its consolidated Production. In other words, MVRNs allow 'horizontal' but not 'vertical' consolidation.

MVRNs also give flexibility in who is responsible for balancing the output of a BM Unit. By using a 100% MVRN to another Subsidiary Party, the Lead Party avoids the imbalance risk (and any associated imbalance charge) which is instead borne by the Subsidiary Party. For example, a small Supplier could use an MVRN to transfer its Consumption energy to the Consumption Energy Account of another larger Supplier. The two Parties to an MVRN would usually agree a bilateral contract (outside the BSC) covering associated liabilities and payments.

Parties notify MVRNs through MVRN Agents (MVRNAs). Both Parties to the MVRN must authorise the relevant MVRNA through an MVRNA Authorisation (MVRNAA). Any change in the P/C Status of a BM Unit currently invalidates any MVRNs in place for that BM Unit, because of the rule prohibiting Production-Consumption or Consumption-Production MVRNs.

## What are ECVNs?

These types of trade are made between Energy Accounts and therefore do not relate to specific BM Units. Unlike MVRNs, these are always 'fixed-volume' transfers (there can be no percentage-volume ECVNs). Unlike MVRNs they can also be from and to any Energy Account – from Production to Production, Production to Consumption, Consumption to Consumption, or Consumption to Production.

ECVNs can be between a single Party's two Energy Accounts, as well as from one Party to another. Many vertically-integrated Parties therefore use them to balance their expected Production and Consumption volumes in a single account. Trading Party groups who consolidate their Production volumes into one Production Energy Account and their

Consumption volumes into one Consumption Energy Account can use an ECVN between these two accounts to balance their position.

Parties notify ECVNs through ECVN Agents (ECVNAs). Both Parties to the ECVN must authorise the relevant ECVNA through an ECVNA Authorisation (ECVNAA).

## What were the original principles behind the existing rules?

The existing rules were originally intended to ensure a level playing field between Parties operating on both sides of the market (often referred to as portfolio players, vertically-integrated Parties, or 'Verticos') and those who operate on one side only (who may be smaller Parties, newer entrants and/or those with niche portfolios of generation or customers). This is because all Parties, regardless of size or portfolio, have to trade through ECVNs to balance their position and avoid imbalance risk.

If vertically-integrated Parties were able to net Production and Consumption volumes within the same Energy Account (e.g. by just having a single Energy Account per Party, or by allowing Production-Consumption and Consumption-Production MVRNs), then they could reduce their imbalance risk because they would only need to trade their residual net volume. This could be viewed as an institutional bias against Parties who only operate on one side of the market. It could also be viewed as reducing vertically-integrated Parties' incentive to balance, as any volatility/uncertainty in their Production and Consumption volumes could be offset (although, to achieve this, the volatility would have to be in opposite directions). Requiring all Parties to trade Production and Consumption separately could be viewed as promoting liquidity, although in practice under the existing rules many vertically-integrated Parties simply 'self-balance' by trading ECVNs between their two Energy Accounts rather than with other Parties.

## How/why does the Proposer want to change the existing rules?

The Proposer seeks, through P282, to relax the existing MVRN rules to allow Production-Consumption and Consumption-Production MVRNs. These could be between a single Party's two Energy Accounts, or between two different Parties. You can find further details of the proposed solution in Section 3.

The Proposer believes that the existing MVRN restrictions prevent smaller Parties from having the flexibility to consolidate and/or manage their imbalance risk in the most efficient way. For example, the Proposer considers that they prevent such Parties using an MVRN to net their position with another Party on the opposite side of the market (e.g. a small generator using an MVRN to net its Production with a small Supplier's Consumption). The Proposer argues that this increases the costs of the trading arrangements and complexity of compliance with the rules. The Proposer therefore believes that P282 would promote competition and efficiency, reducing barriers to market entry.

The Proposer notes that the original restrictions were introduced to ensure that larger vertically-integrated companies would not benefit from the advantage of being able to net their volumes from their generation sites and their supply volumes in a single Energy Account, and so reduce their exposure to imbalance charges. However, the Proposer believes that the existing rules do not provide an effective check, since vertically-integrated companies have found other solutions that minimise their exposure to imbalance. It was also initially assumed that many smaller Parties would only be active on



### Modification Proposal Form

A copy of the Proposer's Modification Proposal Form can be found on the [P282](#) page of the ELEXON website.

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one side of the market; something the Proposer believes has not proven to have been the case.

In addition, the Proposer highlights that Lead Parties of Exempt Export BM Units for licence-exempt generation have the ability to choose the P/C Status of these BM Units, which allows them to choose to which Energy Account their Credited Energy Volumes are allocated. This allows them more flexibility should they choose to reallocate their volumes to another Party. For example, by setting its P/C Status to Consumption, the Lead Party for an Exempt Export BM Unit can use an MVRN to transfer the BM Unit's Credited Energy Volumes to the Consumption Energy Account of a Supplier, thereby consolidating these volumes with the Supplier's existing Consumption volumes. This option is not currently available to other types of BM Unit, who cannot choose their P/C Status. The Proposer believes that P282 would level the playing field between Exempt Export BM Units and other Parties.

Finally, the Proposer considers that, when compared to other European Markets, GB is unusual in requiring separate Production and Consumption accounts. The Proposer therefore believes that P282 may go some way towards harmonising arrangements with other European countries and facilitating the creation of a single European energy market.

### **Are the original principles behind the existing rules still valid?**

A key area of consideration for the P282 Workgroup has been whether relaxing the existing MVRN rules would promote or hinder competition.

The materiality of the potential netting benefits (and therefore any potential effect on liquidity) is lower than may have been anticipated when considered against the total volume of imbalance, and not all vertically-integrated Parties necessarily benefit. However, as would be expected, the non-portfolio players have less scope to benefit unless they contract with other such players on the opposite side of the market (and the Workgroup has different views on the feasibility of this). The Parties who have the greatest potential to benefit appear to be those who are currently the worst at self-balancing. The Workgroup has differing views on whether P282 would therefore give appropriate incentives to balance, as well as whether there would be any resulting negative impact on the System Operator (National Grid) in balancing the energy on the Transmission System.

You can find the Workgroup's discussions of the results, and its views of the overall pros and cons of P282, in Section 6. Overall, a majority of the Workgroup currently supports implementation of P282; however the arguments are finely balanced.



## What is the proposed solution?

P282 proposes to remove the existing restriction whereby energy from a Production BM Unit can only be reallocated to the Subsidiary Party's Production Energy Account and energy from a Consumption BM Unit can only be reallocated to their Consumption Energy Account. Instead, a Lead Party could reallocate energy from a Production BM Unit to a Consumption Energy Account, or vice versa. This could be the Lead Party's own Energy Account or that of another Party.

There would therefore no longer be a link between P/C Status and MVRN validation, and therefore no longer a restriction against the same Party being the Lead and Subsidiary Party to an MVRN. See Attachment A for the specific solution requirements in this area.

Parties would be able to reallocate all their Production and Consumption Credited Energy Volumes into a single Energy Account through MVRNs rather than having to trade these volumes separately through individual ECVNs. They would then only need to trade the resulting net volume through an ECVN. The likely effect of this is that many existing ECVNs would be replaced by MVRNs (see below and further analysis in Section 6).

P282 is optional in that it enables, but does not require, Parties to change the way in which they use MVRNs (and therefore ECVNs).

P282 would not change the terminology for Production and Consumption BM Units, or Energy Accounts, under the BSC. The Workgroup has considered, but discounted, solutions which would remove these concepts from the BSC altogether, and you can find more information on these below.

## How does P282 impact the Funding Shares?

Funding Shares are used to recover certain (non-targeted) BSCCo Costs from Parties according to their market share. Under the current arrangements, energy from a Production BM Unit will be allocated to a Production Energy Account and energy from a Consumption BM Unit will be allocated to a Consumption Energy Account. The Main Funding Share (Section D Annex D-1 Part 1) splits its associated costs 50:50 between the Production and Consumption sides of the market, while the SVA (Production) Funding Share (Section D Annex D-1 Part 3) allocates its costs entirely to the Production side of the market. The calculation of these Funding Shares references the energy in a BSC Party's Production and Consumption Energy Accounts accordingly, relying on the current segregation between the two halves of the market.

P282 would allow energy from a Production BM Unit to be reallocated into a Consumption Energy Account and vice versa, which would remove the current segregation, which would impact the calculations of these Funding Shares. If Parties were able to reallocate Production volumes into their Consumption Energy Account or vice versa then the relevant allocations would become distorted, resulting in incorrect charges being calculated.

Consider, for example, the scenario where every Party except one reallocates all of their Credited Energy Volumes into their Consumption Account, with that remaining Party electing to use their Production Account. This would result in that one Party becoming liable for 50% of the costs allocated under the Main Funding Share and all of the costs allocated under the SVA (Production) Funding Share.

## What is the proposed solution?

Credited Energy Volumes could be reallocated via an MVRN to either a Production or a Consumption Energy Account, regardless of the BM Unit's P/C Status.



The Workgroup has proposed changes to the calculation of these two Funding Shares with an intention to keep the allocations as current. Subsequently, the proposed changes are only to the definitions of the summations used within each equation, so that it is the relevant BM Unit's P/C Status that is used to determine whether Credited Energy Volumes are Production or Consumption, and not which Energy Account the volumes are ultimately allocated to. Therefore, it will not matter which Energy Account a BM Unit's Credited Energy Volumes are subsequently reallocated to; if the energy originated from a Production BM Unit it will still be considered Production energy by the proposed equations even if it is subsequently reallocated into a Consumption Energy Account, and vice versa. Consequently, the proposed equations will mean that P282 would have no impact on each Party's Funding Shares.<sup>2</sup>

In addition, it should be noted that the equations will continue to allocate the relevant share of each Funding Share to the BSC Party to which a BM Unit's Credited Energy Volumes are reallocated to (i.e. the Subsidiary Party). So if the Lead Party elects to reallocate some or all of a BM Unit's Credited Energy Volumes to a Subsidiary Party, the Subsidiary Party will continue to also be allocated the corresponding proportion of each Funding Share.

You can find the proposed changes to these equations in Attachment A.

## Will P282 impact the imbalance calculations?

The P282 solution does not propose any changes to the imbalance calculations:

- The calculation of each Energy Account's imbalance and the subsequent cash-out of this imbalance at either System Buy Price (SBP) or System Sell Price (SSP) will remain as current. P282 will allow the Lead Party of a BM Unit to reallocate that BM Unit's Credited Energy Volume to their 'opposite' Energy Account. In this way, a Party could net the volumes of all of their Production and Consumption BM Units in a single energy Account, and so would only be exposed to imbalance on their net position. However, the only impact this would have with respect to the imbalance calculations is that a BSC Party would be able to avoid paying the SBP/SSP spread should they end up long in one Energy Account and short in the other.
- Each Energy Account's share of the Residual Cashflow Reallocation Cashflow (RCRC) will also remain unchanged by P282. A BSC Party's share of the RCRC is determined by the gross Credited Energy Volumes allocated to each of their Energy Accounts. P282 would allow a Party to reallocate a BM Unit's Credited Energy Volume from one Energy Account to the other, and this would transfer the corresponding proportion of the RCRC between these Energy Accounts. However, the Party's overall RCRC allocation would remain unchanged by such an action.

It should be noted that P282 is likely to reduce the overall amount of imbalance charges paid by Parties, as a consequence of them being able to avoid the SBP/SSP spread should they be long in one Energy Account and short in the other. This will result in a smaller amount of residual money in each Settlement Period that will need to be reallocated via the RCRC mechanism. You can find the Workgroup's discussion of this in Section 6.

<sup>2</sup> It should be noted that under the current arrangements there would be no difference in the results between the current and proposed equations, as energy from Production BM Units can only be allocated to Production Energy Accounts while energy from Consumption BM Units can only be allocated to Consumption Energy Accounts. It is only when energy from a Production BM Unit can be reallocated to a Consumption Energy Account or vice versa that the different equations would produce different results.

## Legal text

The proposed redlined changes to the BSC to deliver the P282 solution can be found in Attachment B.

### Assessment Consultation Question

Do you agree with the Workgroup that the draft legal text delivers the intention of P282?

The Workgroup invites you to give your views using the response form in Attachment C

## Does P282 impact TNUoS or BSUoS?

The Workgroup has not identified any impact of P282 on either Transmission Network Use of System (TNUoS) or Balancing Services Use of System (BSUoS) charges, which National Grid levies under the Connection and Use of System Code (CUSC).

TNUoS is paid by generators who have certain types of connection agreement with National Grid. BSUoS is paid by Lead Parties of BM Units according to their half-hourly BM Unit Metered Volume ( $QM_{ij}$ ); it ignores Credited Energy Volumes ( $QCE_{iaj}$ ) so is unaffected by MVRNs and P282.

## Does P282 impact Trading Units or embedded benefits?

The Workgroup has not identified any impacts of P282 on Trading Unit or embedded benefits. P282 will have no impact on whether a BM Unit is deemed to be a 'delivering' or 'offtaking' BM Unit. Therefore, P282 will have no impact on the benefits that would arise from being a delivering BM Unit in an offtaking Trading Unit or vice versa, which relate to the allocation of Transmission Loss Multipliers (TLMs), BSUoS, RCRC and other BSC costs. In addition, P282 will not impact how a BM Unit's P/C Status is determined, and in any event P282 will allow a Party to overrule which Energy Account a BM Unit's Credited Energy Volume is allocated to, which is determined by P/C Status.

## Are there any alternative solutions?

The Workgroup has considered whether there are any alternative solutions to P282; however it has not identified any which it believes would better facilitate the Applicable BSC Objectives when compared with the Proposer's solution.

In their proposal, the Proposer notes the Workgroup may want to consider a potential Alternative whereby Parties whose annual level of production or consumption is above a certain threshold (such as 20TWh) would remain subject to the current limitations. This could prevent larger vertically-integrated Parties from gaining too large an advantage out of P282 compared to smaller Parties.

However, the Workgroup felt that this solution could be considered undue discrimination against larger Parties, which would be contrary to the Proposer's intention to level the playing field for all Parties. In addition, the Workgroup noted difficulty in enforcing these rules, as each Party's performance would need to be constantly monitored to make sure that the correct Parties were subject to the current limitations. The Workgroup concluded that this solution would not be workable.

The Workgroup noted that P282 would effectively enable each Party to trade through only one of its two Energy Accounts, an ability currently confined to licence-exempt generation. Given this, it could be questioned whether the requirement for two Energy Accounts is still meaningful/necessary or could be seen as inefficient for Parties. The Workgroup noted that moving to a single Energy Account per Party (whether on a mandatory or voluntary basis) would have a significant impact on the BSC, BSC Systems and Trading Parties, while achieving the same end result as the Proposer's suggested MVRN solution. A single Energy Account model would also remove the main purpose of P/C Status, and would therefore have knock-on impacts in that area (see below). While the Workgroup did not rule out a single Energy Account solution being reconsidered in the future, it therefore believed that this could not be a proportional, cost-efficient solution at this time – particularly given the possible wider market changes on the horizon, such as Ofgem's planned Significant Code Review (SCR) on cash-out and DECC's Electricity Market Reform proposals. It noted that, if the implementation of P282 resulted in all Parties trading through only one of their Energy Accounts, it could be easier to 'phase out' the unused accounts at a future point.

The Workgroup also noted that a different alternative solution would be to allow every BM Unit to choose its P/C Status, and thereby which Energy Account BM Unit its volumes are allocated to. It noted that the original purpose of P/C Status (to keep licensed generation and supply separate) would to some extent be 'undone' by P282, and that it could be questioned whether its retention was inefficient. However, P/C Status also has a function in determining how Generation/Demand Capacity and Credit Assessment Load Factor values are used in the Credit Cover calculation, and so any alternative solution in this area would have to address this. Given this, and since the end result of this solution would again be the same, the Workgroup believed that this would also not be a proportional, cost-efficient solution. However, the Workgroup did not rule out this idea being reconsidered in the future, either alongside or separate to a single Energy Account model.

The Workgroup has therefore concluded that the Proposer's MVRN solution is the most pragmatic, least impact/risk and most cost-effective approach. It is also a 'permissive' solution, as Parties would still have the option of trading out of both Energy Accounts as currently. P282 is therefore an 'evolutionary' rather than a 'revolutionary' approach. The Workgroup agrees that the other possible solutions would add additional impact, cost and risk for no obvious additional benefit.

#### Assessment Consultation Question

Do you agree with the Workgroup that there is no Alternative Modification within the scope of P282 which would better facilitate the Applicable BSC Objectives than the Proposer's solution?

The Workgroup invites you to give your views using the response form in Attachment C

## Is P282 impacted by the proposed Cash-Out Significant Code Review?

P282 will impact areas that could be considered by the proposed Cash-Out SCR. For example, a major benefit from P282 is for a Party to be able to consolidate their Credited Energy Volumes into one Energy Account, but this benefit only arises because there are two cash-out prices. One proposal under the Cash-Out SCR is to introduce a single cash-out price, which would nullify this benefit.

The Proposer raised P282 before the SCR was launched. As such, it is up to the Proposer as to whether or not P282 would be put on hold while any related SCR progresses; neither the Panel nor Ofgem can do this without the Proposer's agreement (Section F5.4 of the BSC). The Proposer has elected not to put P282 on hold, and so P282 will progress irrespective of the progression of the Cash-Out SCR.

### Estimated central implementation costs of P282

The total central implementation cost for P277 is approximately £140k. This comprises:

- Approximately £125k in ECVAAs and SAA costs; and
- Approximately £15k (60 man days) in ELEXON effort.

These are one-off implementation costs, and there would be no ongoing central operational costs.

The ECVAAs and SAA costs include making the relevant ECVAAs system changes to allow MVRNAAs and MVRNs to be submitted between a Production BM Unit and a Consumption Energy Account (or vice versa), and amending SAA systems to ensure these MVRNs can be processed in Settlement. In addition, changes are needed to the mechanisms used to calculate the Funding Shares, as described in Section 3.

The ELEXON costs include managing the implementation project and updating the relevant BSC Sections, Code Subsidiary Documents and other documentation.

### Indicative Industry costs of P282

BSC Parties wishing to take advantage of the P282 solution have indicated (in the P282 impact assessment) that they would incur costs ranging from minimal up to £130k each. These costs are mainly one-off costs in order to make the relevant changes to systems and processes for P282. A couple of respondents also identified minimal ongoing costs following implementation of P282.

Note that some Parties provided more detailed, confidential information on their costs and impacts. This information has not been shared with the Workgroup or published on the ELEXON website, but will be provided to Ofgem with the P282 Final Modification Report for decision.



#### Industry Impact Assessment

The full non-confidential responses made by Parties to the Industry Impact Assessment can be found on the [P282](#) page of the ELEXON website.

### P282 impacts

Impact on BSC Systems and process	
BSC System/Process	Impact
ECVAAs	Changes will be required to enable the systems to accept MVRNAAs and MVRNs between a Production BM Unit and a Consumption Energy Account (or vice versa).
SAA	Changes may be required to enable Settlement to process MVRNs between a Production BM Unit and a Consumption Energy Account (or vice versa).
Funding Share System	Changes will be required to amend the calculation of the Main and SVA (Production) Funding Shares.

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#### Impact on BSC Parties and Party Agents

BSC Trading Parties would be able to reallocate their Credited Energy Volumes from a Production BM Unit to a Consumption Energy Account (or vice versa) if they wished. MVRNAs will need to be able to submit MVRNAAs and MVRNs between a Production BM Unit and a Consumption Energy Account, or vice versa.

#### Impact on Transmission Company

No direct impact identified. There is a possibility that, if P282 enables Parties to better balance their positions, National Grid may need to undertake more balancing actions (e.g. if better balancing by Parties reduces available reserve). The Workgroup is seeking more information from National Grid in this area as part of this consultation.

#### Impact on ELEXON

Area of ELEXON	Impact
Release Management	ELEXON will manage the implementation project.

#### Impact on Code

Code Section	Impact
Section D	Changes will be required to implement the solution. See draft legal text in Attachment B.
Section P	
Section T	
Section X – Annex X-1	
Section X – Annex X-2	

#### Impact on Code Subsidiary Documents

CSD	Impact
ECVAA Service Description	Changes will be required to implement the solution. If P282 is approved, ELEXON will develop and consult on the necessary redlined changes as part of the implementation project.
SAA Service Description	

#### Impact on other Configurable Items

Configurable Item	Impact
ECVAA User Requirements Specification	Changes will be required to implement the solution. If P282 is approved, ELEXON will develop and consult on the necessary redlined changes as part of the implementation project.
SAA User Requirement Specification	
NETA Interface Definition and Design Part 2	



Other Impacts	
Item impacted	Impact
ELEXON Guidance Documents	Updates will be required to the 'Overview of Volume Notifications' Guidance Document. If P282 is approved, ELEXON will make these changes as part of the implementation project.

## 5 Implementation

### Recommended Implementation Dates

The Workgroup's recommended Implementation Dates for P282 are:

- 7 November 2013 (November 2013 BSC Systems Release) if ELEXON receives Ofgem's decision on or before 7 February 2013; or
- 27 February 2014 (February 2014 BSC Systems Release) if ELEXON receives Ofgem's decision after 7 February 2013 but on or before 27 May 2013.

The implementation lead times requested by impact assessment respondents (from the point of Ofgem decision to the point of implementation) range from minimal to nine months for two respondents who identify changes to their internal systems and processes. The changes to central systems will require a lead time of seven months.

The central system changes involve:

- Amending ECVAAs systems to enable it to process MVRNAAs and MVRNs between Production BM Units and Consumption Energy Accounts, and vice versa (currently prohibited by the system's validation checks);
- Amending SAA systems to enable Settlement to process MVRNs where the recipient Energy Account belongs to the Lead Party rather than a Subsidiary Party (the scenario where a Party wishes to offset volumes in one of its accounts); and
- Amending the data and calculations used to calculate each Party's Funding Shares each month (as described in Section 3).

The seven months central lead time is required to make the relevant changes to each of these areas and to test them thoroughly ahead of deployment, due to P282's impact on core Settlement systems.

The Workgroup notes that the P282 solution is optional, and has therefore questioned whether it is necessary to base the Implementation Date on the longest requested participant lead time. However, because the central lead time is itself seven months and an Ofgem decision on P282 is not expected until January 2013<sup>3</sup>, it is not possible to implement P282 in the June 2013 Release. As the November 2013 Release is therefore the earliest viable Release, allowing a nine-month implementation lead time still gives Ofgem until February 2013 to approve P282. The Workgroup therefore notes that allowing participants their requested maximum lead time makes no practical difference to the speed in which P282 can be implemented, and agrees that this is an appropriate approach.

One member queried whether a November 2013 implementation could give any additional risk compared with a February 2014 implementation, as it would fall during Winter. No members identified any reason why it would, but the Workgroup agreed to seek consultation respondents' views.



#### Industry Impact Assessment

The full non-confidential responses made by Parties to the Industry Impact Assessment can be found on the [P282](#) page of the ELEXON website.

#### Assessment Consultation Question

Do you agree with the Workgroup's recommended Implementation Date?

The Workgroup invites you to give your views using the response form in Attachment C

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<sup>3</sup> P282 will be sent to Ofgem for decision in mid-December 2012.



### Recommendation

The Workgroup initially recommends approval of P282.

## Who will be the winners and losers from P282?

The Workgroup has examined the materiality of P282, and considered which Parties could gain or lose from this Modification.

### Imbalance charges and RCRC

P282 gives Parties (or groups of Parties) the option of using MVRNs to consolidate/net their Production and Consumption volumes into a single Energy Account. On the Workgroup's behalf, ELEXON has undertaken analysis of the potential effect on Trading Charges to see which Parties may benefit and which may not. The analysis uses real data from 2010 and 2011. It therefore assumes that all Trading Party Groups and single Trading Parties would use P282 to consolidate their volumes in this way (as far as they are able). It ignores any future behavioural changes which P282 might incentivise, about which you can find the Workgroup's discussion later in this section. For the purposes of the analysis, ELEXON has defined 'Party groups' as being those which could plausibly use P282 to consolidate their Production and Consumption imbalances (e.g. because they are in the same Trading Party Group for Panel election purposes, or currently have MVRNs between them). This is only intended to be accurate enough to give an overall picture of the P282 impact, and not to be a legally-correct representation of company relationships.<sup>4</sup> It excludes all types of Party other than Trading Parties, plus any Trading Parties who were inactive and therefore had no Energy Imbalances in the period.

Attachment A contains the full analysis results showing the 'winners' and 'losers'. The results are split between:

- The direct effect on Parties' imbalance charges (under which a benefit is a reduction in imbalance charges and the 'worst-case' position is a zero reduction – no Parties actually lose money); and
- The indirect effect on Parties' Residual Cashflow Reallocation Cashflow (RCRC) charges (under which a benefit is a decrease in RCRC payments made and a disbenefit is a decrease in RCRC payments received).

The analysis shows that the Parties who benefit from reduced imbalance charges are those who are 'long' on one Energy Account and 'short' on another, and who therefore would avoid exposure to the full SBP/SSP spread on the net difference. Intuitively, this would be expected as potential consolidation benefits only arise if imbalances are in opposite directions ('offsetting imbalances'). This in turn impacts other Trading Parties by reducing the overall amount of imbalance charges, and thereby the 'pot' of RCRC which is redistributed across other Party groups by market share. Most Parties would therefore experience a reduction in the RCRC payments they receive as a consequence of P282. The exception are Parties who have a negative share of RCRC (e.g. Suppliers whose embedded generation outweighs their supply volumes), who would see a decrease in the RCRC payments they make.

Note that there is no Production/Consumption netting effect in RCRC charges themselves, as these are based on whether a Trading Unit is 'delivering' (Exporting) or 'offtaking'



### What is RCRC?

The amount of money recovered from Parties who are short through imbalance charges will not usually equal the amount of money paid to Parties who are long. The residual monies are reallocated to (or recovered from) BSC Parties through the RCRC mechanism.

Each Energy Account is allocated a Residual Cashflow Reallocation Proportion (RCRP), which is determined by its Credited Energy Volumes as a proportion of the total Credited Energy Volume across the market in that Settlement Period. Each Party's share of the RCRC is determined by the net of the RCRP for their two Energy Accounts.

For more information, see Section T4.10 of the BSC.

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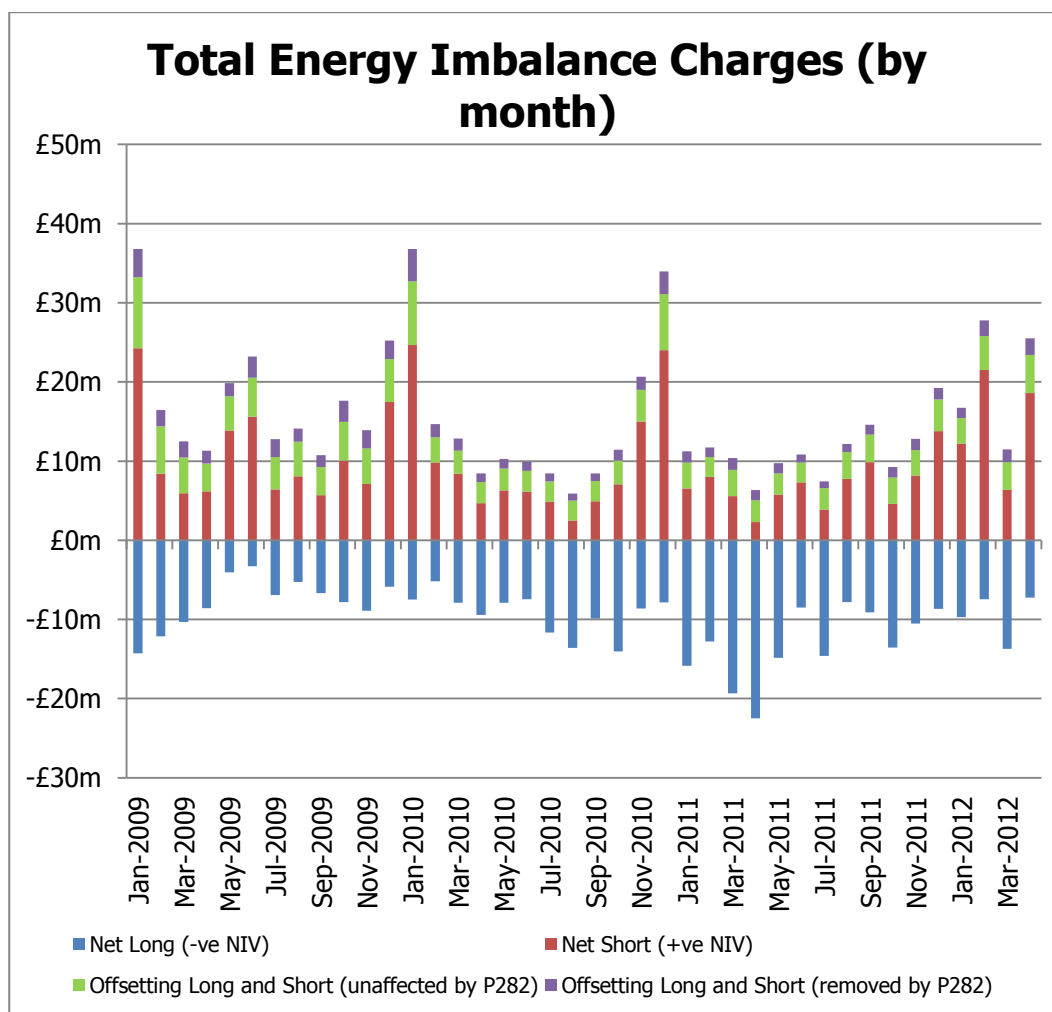
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<sup>4</sup> For instance, if companies X and Y merged in 2011 ELEXON has treated them as belonging to a 'party group' for the whole of the analysis (including Settlement Dates that predate the merger).

(Importing) and therefore on BM Unit Metered Volumes ( $QM_{ij}$ ) not Credited Energy Volumes ( $QCE_{iaj}$ ).

Overall, 'winners' from P282 are therefore those whose reduction in imbalance charges from consolidating their Production and Consumption volumes outweighs their reduction in received RCRC payments, or whose negative RCRC share means that they accrue a net benefit (even if their imbalance charges do not reduce). 'Losers' are those who either have a zero reduction in imbalance charges and a reduction in their received RCRC payments, or who have a reduction in imbalance charges which is outweighed by the reduction in their received RCRC payments. Attachment A shows the results per Party group as both total £ and £/MWh figures. Attachment A also includes the list of which Parties have been included in which Party group. Note that the results are not confidential, since the data used for the analysis appears in the SAA-I014 Settlement reports which are sent to all Parties (and any Party could therefore recreate the results).

The total reduction in imbalance charges from Party groups netting their Production and Consumption is approximately £19.4m based on 2010 data and £15.1m based on 2011 data. While this is a significant amount in absolute terms, when considered against the total volume of imbalance the materiality of the potential P282 benefit is therefore less than might be anticipated. This is illustrated in the following graph (NIV = Net Imbalance Volume).



The blue parts of the graph represent payments made to Parties (at SSP) when the overall market is long, while the red parts represent payments made by Parties (at SBP) when the overall market is short. Both of these are unaffected by P282.

The green and purple parts represent payments made by Parties as a result of offsetting imbalances (i.e. where one Energy Account is long and another is short). These payments

only arise because of the spread between the two cash-out prices (i.e. if there was a single imbalance prices, the opposing imbalances would cancel out). In the analysis, P282 does not reduce the green areas, as these imbalances are between separate Party groups and the analysis does not consider possible behavioural changes. However, if such Parties chose to use MVRNs under P282 to offset imbalances with Parties on the other side of the market (e.g. a scenario in which a small generator and small Supplier club together), there would be potential to reduce the green areas. The purple areas represent imbalances within Party groups and which, in this analysis, are therefore removed by P282.

The Workgroup has been surprised that some 'Big 6' players do not appear to benefit from P282. ELEXON has therefore analysed the results and underlying data further to establish whether there is a pattern in who benefits most. The findings suggest that there is no obvious connection between a Party's particular trading strategy (such as consistently 'trading long') and the amount of benefit they accrue. Instead, they suggest that for a Party group using both Energy Accounts, and with a random distribution of imbalance positions:

- The P282 imbalance benefit is approximately proportional to the 'spread' (standard deviation) of the imbalance distribution;
- The RCRC disbenefit is proportional to the market share; and
- Other things being equal, the net benefit is positive for 'bad balancers' (i.e. relatively wide spread of imbalance values) and negative for 'good balancers' (i.e. relatively narrow spread of imbalance values).

Overall, the analysis suggests that P282 will therefore tend to benefit Parties who:

- Use both Energy Accounts, and have a relatively wide spread of imbalance values (compared to their overall Metered Volumes);
- Use only one Energy Account, but have a negative share of RCRC; and/or
- Make mistakes in their cross-Account trades (and end up with offsetting positions on Production and Consumption).

Conversely, P282 will tend to disbenefit Parties who:

- Use both Energy Accounts, and have a relatively narrow spread of imbalance values (compared to their overall Metered Volumes);
- Use only one Energy Account, and have a positive share of RCRC; and/or
- Do not make mistakes in their cross-Account trades (so do not have offsetting positions to consolidate).

Based on ELEXON's analysis of the P272 'winners and losers', it appears that:

- P282 would not significantly change incentives to have a zero imbalance position (on average); but
- For Party groups who use both Production and Consumption Accounts, it would reduce the incentive to keep imbalance values closely centred around zero (i.e. to have a small standard deviation).

## Notified Volume Charge

Section D Annex D-3 of the BSC lists a series of Specified BSC Charges, which are levied on BSC Parties. One of these is the Notified Volume Charge, which levies a charge based on the absolute volume of energy traded by each Party through ECVNs and fixed-volume MVRNs. This charge is used to recover the costs of the ECVA service, and is set by the BSC Panel. It is currently £0.0006/MWh. While the Panel can change the amount of the charge, it cannot change its constitution (which does not consider percentage-volume MVRNs) without a Modification Proposal.

Under the P282 arrangements, it is possible that a proportion of ECVNs could be replaced with corresponding percentage-volume MVRNs, as Parties look to use MVRNs to consolidate their Production and Consumption volumes in a single Energy Account. This will reduce the volume of energy against which the Notified Volume Charge is applied, and so reduce the amount of money recovered in this way. Currently, if a Party wishes to allocate energy from a Production BM Unit to a Consumption Energy Account or vice versa, they can only do so via an ECVN. Under P282, they would be able to submit a 100% MVRN instead to reallocate the entire BM Unit Metered Volume to the relevant Energy Account.

On the Workgroup's behalf, ELEXON has undertaken analysis of the effects of P282 on the Notified Volume Charge. The analysis uses real data from 2010 and 2011, and the same Party groups as the imbalance/RCRC analysis above. As in the previous analysis, it assumes that all Parties will seek to take advantage of the P282 arrangements by replacing ECVNs with MVRNs (as far as they are able). Again, it assumes that Parties will not otherwise change their trading strategies.

Attachment A contains the full analysis results. These show that the number of ECVNs submitted would reduce by approximately 8%. However, a decrease of around 35% in the volume of energy traded through ECVNs could be realised as Parties move to replace their intra-Party group ECVNs with MVRNs.

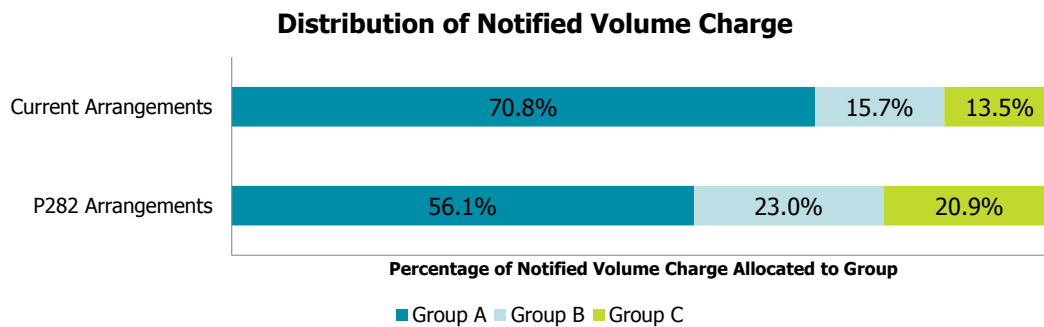
The existing constitution of the Notified Volume Charge does not include percentage-volume MVRNs. If the volume traded through ECVNs and fixed volume MVRNs decreases, then the amount of money recovered by the charge reduces proportionally.

If the charge remains unchanged at £0.0006/MWh, Parties in Party groups ('Group A' in the analysis) could realise savings of nearly 50% on average in their Notified Volume Charges. Parties who are not part of a group but currently use ECVNs to balance between their accounts ('Group B') could see a 5% saving on average. Parties who are not in Party groups and are active on one side of the market only ('Group C', who therefore cannot replace ECVNs with MVRNs) would not see any reduction but would not see any increase. However, the charge would no longer be recovering the total costs of the ECVA service.

If the Panel decided to increase the Notified Volume Charge to £0.001/MWh, to recover the full service costs, but the constitution of the charge continues to exclude percentage-volume MVRNs, then those Parties who are still submitting ECVNs and fixed-volume MVRNs will pick up a higher proportion of the charges. Parties in Party groups ('Group A') would still realise an overall saving, but this would be reduced to 15% on average. Parties who are not part of a group but currently use ECVNs to balance between accounts ('Group B') would see an increase in their Notified Volume Charges of approximately 58%, and Parties who only operate on one side of the market ('Group C') would see an increase of 67%.



Another way to look at the effect is that, if P282 results in 35% of the absolute volume of ECVNs being replaced with MVRNs (which equates to around £400k per year under the existing Notified Volume Charge), increasing the charge to compensate would redistribute this £400k charge across Parties in line with their remaining volumes of ECVNs.



The Workgroup has considered whether this could be perceived as unfair on the smaller Parties that only operate on one side of the market, and thus may have reduced opportunity to take advantage of P282, as they would bear the biggest percentage increase in charges should the tariff go up. Some members wondered whether the constitution of the Notified Volume Charge could be amended to include the volume from percentage-volume MVRNs. However, the volume from these MVRNs would not be known until after the end of a Settlement Period, and would then be subject to the subsequent reconciliation process, which ECVNs and fixed-volume MVRNs are not. This would increase the complexity of allocating the charge. Another Workgroup member considered scrapping the charge altogether and allocating the costs of the ECVA service under the Main Funding Share (i.e. by market share). However, the Workgroup has concluded that the materiality is very low compared with that of the imbalance charge and RCRC impacts, and so agrees that the Notified Volume Charge will not be amended as part of P282. Some Workgroup members note that around 25% of the ECVNs and fixed-volume MVRNs submitted by 'Group C' Parties are submitted by Power Exchanges, who would be able to pass any increased costs onto their customers. Other members suggest that it is wrong to state that Parties on one side of the market could not benefit from P282, as they believe these Parties could club together to offset imbalances through MVRNs (see below).

## Workgroup's discussion of analysis results and their implications for future behaviour, competition and the System Operator

The Workgroup noted that the biggest benefits from P282 are realised by Parties who are less good at managing their imbalance positions. Parties which have less reliable generation plant or less accurate demand forecasts could regularly find themselves exposed to the SBP/SSP spread. However, if they consolidated their volumes into one Energy Account, then they would be able to avoid this portion of their imbalance charges, as the opposing imbalances would net off. As noted above, this benefit could only be realised in situations where one Energy Account is long and the other is short.

The Workgroup wondered whether this meant P282 would penalise Parties who have invested in improving the reliability of their plant or the accuracy of their forecasts. Under P282, Parties would be able to carry length on one side of the market to cater for a shortfall on the other side without incurring the penalty of paying the SBP/SSP spread. This may be a disincentive to improving plant or forecasting reliability in the future, instead relying on being able to (for example) manipulate their generation levels to offset any errors in their demand forecasts.

For example, if a Party noticed that their demand was higher than forecasted during a Settlement Period, and thus they would be short in their Consumption Energy Account, they could increase their own generation to compensate, and so end up long in their Production Energy Account. Under the current arrangements, they would be exposed to the SBP/SSP spread on these equal and opposite imbalances. Under the P282 arrangements however, these equal and opposite imbalances could be netted off in a single Energy Account through an MVRN, thus avoiding the associated imbalance charges. Some members questioned whether this was any different from now, when Parties can adjust their generation and submit updated ECVNs to balance between their Production and Consumption Accounts. Other members noted that ECVNs (and fixed-volume MVRNs) must be submitted ahead of Gate Closure whereas using 'evergreen' 100% MVRNs could give Parties greater potential to tweak generation output closer to Gate Closure. This could mean that Parties amend their Physical Notifications more frequently and nearer to Gate Closure, as their forecasts for the Settlement Period change, in order to maximise their potential to self-balance.

Some Workgroup members noted that, for vertically-integrated companies, the greatest volatility is likely to be in their Consumption volumes, and suggested that it was therefore unlikely that P282 would change such Parties' hedging strategies (see below for more on possible behaviour changes). Others members suggested that smaller one-sided Parties are most exposed to volatility, because they are more likely to be intermittent generators or have fewer customers. These members believed it was questionable whether P282 would benefit these Parties, and were concerned that this could be anti-competitive (again, see below).

Some Workgroup members wondered whether it was correct to consider changes to the size of the RCRC funds as being either benefits or disbenefits of P282 as part of the benefits analysis. However, the Workgroup notes that RCRC is heavily linked to imbalance charging, as RCRC consists of the net money remaining after all imbalance charges have been paid or received, and that a reduction in the volume of money redistributed via RCRC could be perceived as a disbenefit to Parties. Without considering RCRC, every Party would either realise a benefit or see no impact on their imbalance charges (i.e. there would be no obvious disbenefit to anyone). The analysis therefore considers the net effect of each Party's savings in imbalance charges and their reduction in RCRC allocation.

## How does P282 interact with P285/P286?

Modification Proposals [P285 'Revised treatment of RCRC for Interconnector BM Units'](#) and [P286 'Revised treatment of RCRC for generation BM Units'](#) propose to change the distribution of RCRC among BSC Parties, by excluding Interconnector BM Units and BM Units that are in delivering Trading Units respectively from the allocation of RCRC. Part of the Workgroup's analysis of the impacts of P282 has been to consider each Party's gains and losses as a result of a smaller amount of money reallocated via RCRC. If P285 and/or P286 are approved, then this redistribution of RCRC would be impacted accordingly.

It should be noted that P282 and P285/P286 are not dependent on each other. Although both will impact RCRC, P282 will impact the amount of money reallocated to Parties via RCRC, while P285/P286 will impact which Parties receive RCRC.

The Workgroup has carried out analysis to re-examine the impacts of P282 on Parties should P285 and/or P286 also be approved, and this can be found in Attachment A.

## How could Parties' behaviour change?

Under the current arrangements, Parties which hold multiple Party IDs will often use MVRNs to consolidate all of their Production BM Units' Credited Energy Volumes into a single Production Energy Account, and all of their Consumption BM Units' Credited Energy Volumes into a single Consumption Energy Account. This makes it easier to trade these volumes, as the corresponding contracts only need be made against one pair of Energy Accounts, and the Party minimises their exposure to imbalance on each side of the Market.

P282 would allow Parties to go one step further, and consolidate Production and Consumption into a single Energy Account. This will be of most benefit to Parties who operate on both sides of the market, as they would be able to bring all of their Credited Energy Volumes together, and therefore will only be exposed to imbalance on their net position. Parties that only operate on one side of the market would not receive this benefit, as they would not have any volumes on the opposite side of the market to net against.

### Parties operating on one side of the market

The Workgroup has considered whether P282 would enable smaller Parties to 'club together', in order to achieve similar effects to the larger vertically-integrated players. Under the P282 arrangements, it would be possible for an independent generator and a small Supplier to come together and net their volumes into a single Energy Account through an MVRN, something they would not be able to do under the current arrangements. By netting their volumes, they would be able to realise combined savings from a reduction in exposure to imbalance charges.

The Workgroup notes that such a similar arrangement could be achieved currently through the use of ECVNs (i.e. with one of the Parties using ECVNs to trade their volume into the other Party's Energy Account, where they would net). The only difference would be that, by using a 100% MVRN, they would guarantee that all of a BM Unit's Credited Energy Volume would be traded across. Embedded generators can already achieve a similar result, as Exempt Export BM Units can set their P/C Status to Consumption and transfer their volume to a Supplier's Consumption Account (through either an ECVN or MVRN). SVA-registered embedded generation forms part of a Supplier's Metered Volumes rather than a BM Unit in its own right.

Many Workgroup members believe that there are significant contractual obstacles to smaller 'one-sided' Parties clubbing together through MVRNs, due to the complexities of managing the responsibility/liability for any imbalance and credit risk. These members note that there is currently little cross-company consolidation. They believe that P282 would not remove these obstacles, and therefore would not lead to an increase in such arrangements. However, the Proposer believes P282 would give one-sided players more flexibility to pursue such arrangements and thereby to manage their imbalance risk.

The Workgroup notes that some small generators, and some small Suppliers, may also be Interconnector Users. As such, P282 would allow small generators to net Production generator BM Unit volumes with Consumption Interconnector BM Unit volumes (i.e. any generation that they export to another country). Similarly, it would allow small Suppliers to net Production Interconnector BM Unit volumes (i.e. any energy which they purchase from another country) with their Consumption Supplier BM Unit volumes – and with any volumes from Exempt Export BM Units (regardless of P/C Status). See below for further information about Interconnector Users.

## Interconnector Users

The Workgroup noted that P282 would allow Interconnector Users to net their Interconnector volumes into a single Energy Account. Currently, energy that is brought into GB over an Interconnector is treated as Production, and is allocated to the Interconnector User's Production Energy Account. Conversely, energy leaving GB over an Interconnector is treated as Consumption, and is allocated to the Interconnector User's Consumption Energy Account. P282 would allow the Interconnector User to allocate both of these volumes into one Energy Account.<sup>5</sup>

## Self-balancing and the impact on the System Operator

Workgroup members have suggested that a number of Parties do aim to be long in both of their Energy Accounts, to avoid the risk of having to pay SBP if they end up short. If Parties were able to combine their volumes into a single Energy Account, then it is possible that they could then aim to be less long overall. Also, as noted above, Parties would also have more ability to self-balance, due to the more 'real-time' nature of an MVRN compared with an ECVN – for example if their demand turns out to be more or less than expected, they could get their generation sites to increase or decrease generation accordingly, in order to maintain an overall balanced position.

Some Workgroup members believe that this could create more issues for the System Operator, as Parties may submit more Physical Notifications closer to Gate Closure as they fine-tune their positions in order to self-balance. This would increase the volatility, making balancing the system harder. As a result, the System Operator may also need to hold more reserve to cater for this uncertainty, which would increase costs accordingly. The Workgroup is seeking further information from National Grid in this area as part of this consultation.

Other members believe that any increase in self-balancing is a positive thing, noting that it could indirectly help reduce the amount of Credit Cover which Parties need to lodge (as their Trading Charges will be less due to reduced imbalance charges).

### Assessment Consultation Question

Do you believe P282 will have an impact on Parties' behaviour?

The Workgroup invites you to give your views using the response form in Attachment C

## How would P282 affect liquidity?

The Workgroup has considered what impact P282 may have on liquidity.

Some Workgroup members are unconvinced that the requirement to trade licensed generation and licensed supply separately has led to the intended liquidity, as vertically-integrated Parties have found other methods to 'self-balance' without trading with other Parties (e.g. using MVRNs to consolidate 'horizontally' and ECVNs to consolidate 'vertically' as described in Section 2).

Some Workgroup members are unconvinced that P282 would have any material impact on liquidity. These members believe that any impact would be confined to the short-term, intra-day, market as Parties would be better able to self-balance rather than relying on

<sup>5</sup> This issue was previously highlighted in Rejected Modification [P277 'Allow Interconnector BM Units to choose their P/C Status'](#). For more information, please refer to the P277 Final Modification Report.

last-minute trading. One member characterised this as “trimming round the edges at the last minute”, and did not believe this would impact general market liquidity. Other members suggest that any reduction in short-term trades between Party groups could undermine forward liquidity, and consider that liquidity is needed at all points on the trading horizon.

The Workgroup is unsure whether P282 could affect longer-term trading, since liquidity is also affected by other factors outside the BSC. Some members believe that liquidity issues should be tackled through regulation (such as mandatory auctions) and not market rules. Some members also consider that P282 could encourage ‘gross bidding’, where Parties who trade an offsetting amount of purchases and sales through a Power Exchange can receive a reduced fee on those trades, which could increase the amount of energy traded through Power Exchanges, impacting liquidity.

#### Assessment Consultation Question

Do you believe P282 will have an impact on liquidity? Will P282 have any unintended consequences on short-term liquidity?

The Workgroup invites you to give your views using the response form in Attachment C

### Would P282 affect visibility in the market?

One Workgroup member has concerns around the impact P282 could have on transparency and visibility. Currently, if Parties wish to trade energy, they would do so through an ECVN, which must be submitted by Gate Closure for the relevant Settlement Period. As a result, the volume of energy traded under the ECVN is an estimate based on the Party’s forecasts of how much demand will be needed or generation produced. The volume of ECVNs submitted against each energy Account can then be seen by all other Parties in the form of the Energy Account’s notified volume (although this does not show who the Party has traded with).

Under P282, Parties may be able to replace some or all of their ECVNs with percentage-volume MVRNs. Unlike ECVNs, these would transfer a volume of energy based on the BM Unit’s actual performance in the Settlement Period, and would be calculated after the Settlement Period had been completed. The Party would only need to submit the relevant percentage prior to Gate Closure. Subsequently, the Workgroup member felt that a bit of visibility would be lost as Parties’ notified volumes would become distorted, making it harder to estimate how accurate other Parties’ forecasting has been. They wondered if this was something that Ofgem would be concerned about. The Workgroup noted that Ofgem could consider this when making its decision whether to approve P282.

The majority of the Workgroup are less concerned on this point, believing that any effect is unlikely to be material and that it is unproven that the current visibility is useful to participants. They note that there would still be visibility on the volumes of energy from each BM Unit and where this energy is reallocated to. They also commented on possible European changes in the pipeline that may require additional reporting (e.g. REMIT<sup>6</sup>), which may negate this perceived reduction in visibility.

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<sup>6</sup> Regulation (EU) No 1227/2011 on Wholesale Energy Market Integrity and Transparency. More information can be found at [http://acernet.acer.europa.eu/portal/page/portal/ACER\\_HOME/Activities/REMIT](http://acernet.acer.europa.eu/portal/page/portal/ACER_HOME/Activities/REMIT).

## What are the Workgroup's views against the Applicable BSC Objectives?

The following table contains the Proposer's and the Workgroup's views against each of the Applicable BSC Objectives:

Does P282 better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views <sup>7</sup>
(a)	<ul style="list-style-type: none"> <li>• <b>Neutral</b> – No impact.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Neutral</b> – No impact.</li> </ul>
(b)	<ul style="list-style-type: none"> <li>• <b>Neutral</b> – No impact.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Yes</b> – Would allow Parties to self-balance (potentially closer to Gate Closure), which would reduce costs incurred by System Operator in balancing the System.</li> <li>• <b>Marginal Yes</b> – Reduces overall imbalance but may require the System Operator to take more balancing actions if results in people going less long or updating PNs closer to Gate Closure. However, self-balancing in theory should be good for the efficiency of the Transmission System.</li> <li>• <b>No</b> – Parties might submit more Physical Notifications closer to Gate Closure. This could increase volatility and uncertainty, which could mean the System Operator would need to hold more reserve, increasing costs.</li> <li>• <b>Neutral</b> – Uncertainty over how P282 would impact balancing behaviour.</li> </ul>
(c)	<ul style="list-style-type: none"> <li>• <b>Yes</b> – Introduces an optional tool, providing more flexibility for smaller Parties to manage imbalance exposure and reduce risk. This should increase competition and attract new entrants.</li> <li>• <b>Yes</b> – Reduces level of complexity and cost of compliance, so removes a barrier to market entry.</li> <li>• <b>Yes</b> – gives level playing field between Parties for the reasons described in Section 2.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Yes</b> – Helps smaller Parties who have both Production and Consumption. Don't believe that original reasons behind keeping volumes separate are proven valid or helped market. So could promote new entry. Don't agree that P282 would penalise 'one-sided' Parties; current arrangements could be seen as penalising the vertically-integrated.</li> <li>• <b>Marginal Yes</b> – Would help Parties to be able to better balance their position.</li> <li>• <b>No</b> – Parties that only operate on one side would lose out as a result of P282. Would enforce the position of the bigger Parties.</li> <li>• <b>Marginal No</b> – Can't see how P282 helps Parties enter the market on one side of the market or grow. Maybe reinforces the position of incumbents.</li> <li>• <b>Neutral</b> – Some Parties gain while some lose. Note a clear pattern between large and small,</li> </ul>



### What are the Applicable BSC Objectives?

(a) The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence

(b) The efficient, economic and co-ordinated operation of the National Electricity 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 of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency

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<sup>7</sup> Shows the different views expressed by the other Workgroup members – not all members necessarily agree with all of these views.



Does P282 better facilitate the Applicable BSC Objectives?

Obj	Proposer's Views	Other Workgroup Members' Views <sup>7</sup>
		<p>or vertically-integrated and one-sided, Parties.</p> <ul style="list-style-type: none"> <li>• <b>Unsure</b> – Although the materiality may be less than expected, P282 still creates significant distributional effects. But can see benefits for certain Parties.</li> <li>• <b>Unsure</b> – Unconvinced that Parties who operate on one side of the market only would benefit. This could be seen as discriminatory, although it is not true that all large Parties would necessarily benefit from P282 either.</li> <li>• <b>Unsure</b> – Existing rules are the same for everyone. While size matters, risk is the same for all. Therefore not convinced that current rules discriminate one way or the other.</li> <li>• <b>Unsure</b> – Concerned that the Parties who are worst at balancing benefit the most from P282.</li> </ul>
(d)	<ul style="list-style-type: none"> <li>• <b>Yes</b> – Creates greater flexibility and efficiency by removing an unnecessary restriction, helping Parties to better manage costs (including costs of compliance with BSC).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Yes</b> – Increases efficiency for Parties as they would only need to submit a single, 'evergreen' 100% MVRN instead of multiple ECVNs.</li> <li>• <b>Yes</b> – Using 'evergreen' 100% MVRNs removes the risk and administration for Parties in submitting multiple ECVNs.</li> <li>• <b>Yes</b> – Simplifies arrangements; reduces complexity.</li> <li>• <b>Marginal No</b> – Incurs central implementation costs to ELEXON and BSC Agents without providing any central efficiency benefit.</li> <li>• <b>Neutral</b> – Reduces ECVN-related administration, but increases MVRN-related administration.</li> <li>• <b>Neutral</b> - While risk of errors is the same for all, the impact of errors could be proportionally greater for smaller Parties. However, not obvious that P282 will enable smaller one-sided Parties to reduce the risk of such errors.</li> </ul>
(e)	<ul style="list-style-type: none"> <li>• <b>Yes</b> – GB arrangements are different to those in other countries, so this would aid in harmonising arrangements with other European countries and facilitates the creation of a single European market.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Neutral</b> – Objective (e) has a narrow scope and relates to the European Third Package legislation. There is nothing specific in European legislation that would require this change.</li> <li>• <b>Marginal Yes</b> – Nothing specific in legislation, but would move GB towards the European norm.</li> </ul>

**By majority, the Workgroup's initial view is that P282 does better facilitate the Applicable BSC Objectives, and should be approved.**

However, many members feel that the arguments for and against are finely balanced, and the materiality lower than expected, making its conclusions more marginal. This is in part due to the difficulties in predicting changes in Parties' behaviour which could arise from P282. The Workgroup agrees that it is difficult to see what further, meaningful analysis it could undertake in this area without devoting significant time and cost (which it believes would not be a proportionate use of industry resources).

The table below uses a slightly different format to illustrate the range of views among the Workgroup.

Does P282 better facilitate the Applicable BSC Objectives?				
Obj	Yes	No	Neutral	Unsure
<b>(a)</b>	-	-	Unanimous	-
<b>(b)</b>	Majority	Minority	Large minority	-
<b>(c)</b>	Equally split		Equally split	
<b>(d)</b>	Slight majority	Minority	Large minority	-
<b>(e)</b>	Minority	-	Majority	-

#### Assessment Consultation Question

Do you agree with the Workgroup's initial view that P282 better facilitates the Applicable BSC Objectives when compared with the current BSC rules?

The Workgroup invites you to give your views using the response form in Attachment C