Stage 04: Final Modification Report

P286 'Revised treatment of RCRC for generation BM Units'

CUSC Modification Proposal (CMP) 201 proposes to remove Balancing Services Use of System (BSUoS) charges/payments from generation BM Units.

The Proposer believes that the BSC's Residual Cashflow Reallocation Cashflow (RCRC) can be considered as related to the imbalance cost element recovered within BSUoS, and currently all Parties are exposed to both. P286 therefore proposes that generation BM Units should no longer be subject to RCRC charges/payments if CMP201 is approved.

The BSC Panel:
- Recommends **Approval** of P286

High Impact:
- Generators
- Settlement Administrator Agent (SAA)

Medium Impact:
- All BSC Trading Parties that are subject to RCRC

Low Impact:
- ELEXON

Contents

About this Document

This is the P286 Final Modification Report, which ELEXON has submitted to Ofgem on behalf of the BSC Panel. It includes a summary of the Workgroup's assessment, the Panel's full views and the responses to both the Workgroup's Assessment Consultations and the Panel's Report Phase Consultation. Ofgem will consider this report and will decide whether to approve or reject P286.

There are five parts to this document:

- This is the main document. It provides details of the solution, impacts, costs, benefits/drawbacks and proposed implementation approach. It also includes the Panel's discussions and final recommendations and a summary of the responses received from the Report Phase Consultation.
- 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 P286. 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 P286.
- Attachment C contains the full responses received to the Workgroup's Assessment Procedure Consultation.
- Attachment D contains the full responses received to the Panel's Report Phase Consultation.

The Panel has progressed P286 in parallel with P285 'Revised treatment of RCRC for Interconnector BM Units'. P285 will also impact the allocation of RCRC, although the two solutions are independent of each other. For more information about P285, please refer to the separate P285 Final Modification Report.

Any questions?

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1 Summary

Why Change?

CUSC Modification Proposal (CMP) 201 proposes to remove BSUoS charges from generation BM Units (defined as BM Units that are in delivering Trading Units) in a given Settlement Period. If approved, this would result in a potentially anomalous situation where Parties are liable for RCRC charges/payments from the Settlement imbalance process but are not liable for BSUoS charges/payments that include the cost to the system Operator of resolving those imbalances.

Solution

P286 proposes to exclude BM Units that are in delivering Trading Units in a particular Settlement Period from RCRC charges/payments.

Impacts & Costs

P286 impacts the BSC and the Settlement Administration Agent (SAA) Service Description and User Requirement Specification.

It will impact all BSC Trading Parties, the SAA and ECVAA, and ELEXON.

The central implementation cost of P286 is £70k, comprising £59k in SAA and ECVAA costs and £11k in ELEXON effort. Individual Party costs range from zero to £10k.

Implementation

The Workgroup recommends that P286 is implemented with the same Implementation Date as that for CMP201, should CMP201 be approved. The earliest proposed Implementation Date is 1 April 2015. The lead time for central system changes is approximately five months. Parties would require up to two years in order to account for P286 in their trades and contracts.

The Case for Change

The Panel unanimously agrees with the Workgroup's majority view that P286 would better facilitate Applicable BSC Objectives (a), (b) and (c). The Panel therefore recommends that P286 is approved.

What is RCRC?

For each Settlement Period, each BSC Trading Party is charged or paid for any imbalance in each of their Energy Accounts. If they are short in an Energy Account (they sold/consumed more energy than they brought/generated), then they are charged for that shortfall at the System Buy Price (SBP). If they are long in an Energy Account (they brought/generated more energy than they sold/consumed), then they are paid for that excess energy at the System Sell Price (SSP).

The total amount of money paid to Trading Parties who are long in a given Settlement Period will not usually equal the total amount of money recovered from Trading Parties who are short in that Settlement Period, due to the dual imbalance cash-out prices under the BSC. However, it is a requirement that the net costs arising from Trading Charges is zero. Consequently, the net of these charges must be recovered from or redistributed to all Trading Parties in order to ensure that the total charges in that Settlement Period net to zero. This recovery or redistribution is settled through the Residual Cashflow Reallocation Cashflow (RCRC).

In order to allocate these net charges, a Residual Cashflow Reallocation Proportion (RCRP) is calculated for each Energy Account in each Settlement Period. This proportion is calculated as the Energy Account's Credited Energy Volumes (QCE_{iaj}) as a proportion of the total Credited Energy Volume across the market in that Settlement Period. Each Party's RCRC payment/charge for that Settlement Period will then be the proportion of the residual cashflow equivalent to the sum of the RCRP of both their Energy Accounts.

It should be noted that RCRC represents the net money after the settlement of all Trading Charges – energy imbalances, the Balancing Mechanism payments and the System Operator BM Charge. However, the Balancing Mechanism payments and the System Operator BM Charge will always cancel each other out in a given Settlement Period. As a result, RCRC is generally formed only from the net of the imbalance charges in that Settlement Period.

How do RCRC and BSUoS interact?

The Balancing Services Use of System (BSUoS) charge is used to recover the costs incurred by the System Operator in balancing the system. These costs are generally formed from energy balancing costs, which are incurred through resolving the imbalances created by Parties failing to balance their positions, and system balancing costs, which are incurred through other activities such as managing transmission constraints. Like RCRC, these costs are recovered from or redistributed to Parties in proportion with their Credited Energy Volumes.

Both RCRC and a proportion of BSUoS charges/payments arise from the need to resolve any imbalances that occur on the system. Consequently, there is a relationship between these two charges.

Consider the scenario where the market is short overall. In order to resolve this net imbalance, the System Operator will have needed to buy extra energy through Offers made by Parties. The cost of buying this extra energy is recovered from Parties through BSUoS. At the same time, the Parties who were short, and thus contributed to the market being short overall, will have been charged for their shortfall at SBP. These payments are redistributed to Parties through RCRC.

What is the issue?

A CUSC Modification Proposal proposes to remove BSUoS charges from generation BM Units. If approved, this would result in a potentially anomalous situation where Parties are liable for RCRC charges/payments but are not liable for BSUoS charges/payments.

As the main imbalance price (SBP in this case)[1] is largely calculated from the costs incurred by the System Operator in accepting Bids and Offers, the amount of money recovered from Parties as part of the BSUoS charge for addressing imbalance and the amount of money redistributed to Parties through RCRC should be similar. However, they will not be equal as the main imbalance price will not equal the average price of balancing actions (due to the flagging of system balancing actions, the tagging of arbitrage and de minimis trades and Price Average Referencing (PAR) tagging carried out as part of the calculation of the main imbalance price). It should be noted that other System Operator costs are also recovered through BSUoS, and there is a second component to RCRC (see below). Nevertheless, BSUoS and RCRC can be considered related and opposite cashflows, and Parties are usually only exposed to the net of these charges.

If, in the scenario above, the system was long overall, then the reverse situation would exist. The System Operator would accept Bids to resolve the imbalance, and the payments (or costs) from these would be passed back to Parties through BSUoS. Consequently, SSP will be the main price, and the Parties who were long will be paid for their imbalance, the costs of which would be recovered from Parties through RCRC.

There is a second component of RCRC, which arises from offsetting any opposing imbalances that exist, for example when one Party is long and another Party is short by an equal amount. In this case, the System Operator will not have needed to take any action, as the two imbalances cancel each other out, and so there will be no resulting contribution to the BSUoS charge. However, as SBP will always be greater than or equal to SSP, the amount recovered in imbalance charges from the Party who was short will be more than the amount paid to the Party who was long. This means that there will be some additional residual cash left over that is redistributed to Parties through RCRC.

As the distribution of BSUoS and RCRC is based on Credited Energy Volumes, the Party that is liable for BSUoS charges/payments and the Party liable for RCRC charges/payments will often be the same, and they will usually pick up the same proportion of each. An exception will occur though if the relevant BM Unit is the subject of a Metered Volume Reallocation Notification (MVRN). If an MVRN is in place, then it will be the Subsidiary Party that will be charged/paid RCRC against the relevant Credited Energy Volumes. However, it will be the Lead Party that continues to be charged/paid BSUoS against those Credited Energy Volumes.

How/why does the Proposer want to change the current rules?

CUSC Modification Proposal (CMP) 201 is seeking to remove BSUoS charges from generation BM Units. This proposal was raised in response to CMP202, which has removed BSUoS charges from Interconnector BM Units.[2] The proposer of CMP201 believes that by also removing BSUoS from generation BM Units, GB generation would be able to compete on an equitable basis with imports over Interconnectors, and thus with other generation in a single European electricity market.

If CMP201 is approved, then this would create a potentially anomalous situation whereby Parties may receive or pay RCRC yet no longer contribute to the System Operator cost of resolving energy imbalances. Whilst BSUoS and RCRC are separate cashflows, they are

Modification Proposal Form

A copy of the Proposer's Modification Proposal Form can be found on the P286 page of the ELEXON website.

[1] In each Settlement Period, one of SBP and SSP will be the 'main' price, which is calculated based on the Bids and Offers accepted by National Grid. The other price is the 'reverse' price, and is calculated using data on short-term trades obtained from the power exchanges. If the system is short, SBP is the main price and SSP is the reverse price. The reverse is true if the system is long.

[2] CMP202 was implemented on 30 August 2012. For further information, please see the separate P285 Draft Modification Report.

related; the System Operator costs for energy balancing recovered through BSUoS are returned to BSC Parties via RCRC. This could give rise to the potential for windfall gains or losses by those Parties who would no longer be liable for BSUoS, due to the relationship between BSUoS and RCRC.

Is there a link between RCRC and BSUoS?

The P286 Workgroup has considered whether P286 is an appropriate solution to the issue. The majority of the Workgroup are of the opinion that there is a link between RCRC and BSUoS and that the changes proposed by P286 are an appropriate reaction to the changes proposed by CMP201. However, some Workgroup members note that they do not necessarily agree with CMP201, and that they only support P286 should CMP201 be approved.[3]

One Workgroup member disagrees with the view that RCRC and BSUoS are related, believing the link between the two to be tenuous, and believes that the allocation of RCRC should not be changed in reaction to the proposed changes to the allocation of BSUoS. They believe that P286 should not be approved regardless of the Authority’s decision on CMP201, as it would just compound the problem. They also consider that, due to the relationship between RCRC and imbalance prices, it would be more appropriate for the issue to be discussed as part of the Electricity Balancing Significant Code Review.

You can find the Workgroup's full discussions on this area in Section 6, along with its views on whether P286 should be approved or rejected. Overall, a majority of the Workgroup support the implementation of P286, but their support is conditional on CMP201 also being approved, and that if CMP201 is rejected then they believe that P286 should also be rejected.

[3] The CUSC Panel recommended by majority that the CMP201 Original Solution should be implemented at its meeting on 28 September 2012. Ofgem has sent CMP201 back to the CUSC Panel, where it is undergoing further analysis.

What is the proposed solution?

P286 proposes to exclude generation BM Units from RCRC charges/payments. To achieve this, the Credited Energy Volumes from generation BM Units would be excluded from the calculation of each Party's RCRP. This will mean that generation BM Unit volumes would not be included in a Party's RCRP, and the share of the RCRC that would have been allocated to these generation volumes will instead be reallocated across BSC Parties in proportion with their non-generation Credited Energy Volumes.

Under CMP201, a generation BM Unit has been defined as any BM Unit that belongs to a delivering (i.e. exporting) Trading Unit in a given Settlement Period. It is proposed that the same definition is used for P286, to ensure consistency. See below for an explanation of how a BM Unit is deemed to be delivering or offtaking.

P286 will not impact any reporting flows such as the SAA-I014 flow, which will continue to report a Party's RCRP and RCRC values as currently. However, Parties who only hold BM Units that are in delivering Trading Units will receive RCRP and RCRC values of zero following the P286 Implementation Date. Parties with BM Units that are in offtaking Trading Units will also see changes to their RCRP/RCRC values as a consequence of the RCRC previously allocated to the volumes from delivering BM Units being reallocated in proportion to each Party's offtaking BM Unit volumes.

What is the difference between Production/Consumption status and delivering/offtaking status?

There commonly tends to be a misunderstanding about the difference between Production/Consumption (P/C) status and delivering/offtaking status.

- **P/C Status** is usually determined at the Trading Unit level, and is based on the Generation Capacity and Demand Capacity (GC/DC) values submitted by its BM Units for the current BSC Season. These values are the BM Units' estimates of their maximum generation/demand for that BSC Season. Exempt Export BM Units can choose to fix their P/C Status independently of their Trading Unit. Others types of BM Unit have their P/C Status fixed automatically by BSC Systems (Interconnector BM Units are allocated in pairs, where one BM Unit has a fixed P/C Status of Production and the other of Consumption, and Supplier BM Units will always have a fixed P/C Status of Consumption).
- **Delivering/offtaking status** is also determined at the Trading Unit level, but is based on the actual Metered Volumes (QM_{ij}) of its BM Units in a given Settlement Period. If the net Metered Volume of all the BM Units in a Trading Unit is positive in a given Settlement Period, the Trading Unit is a delivering Trading Unit, and all the BM Units are deemed to be delivering BM Units. Equally, if the net Metered Volume of all the BM Units in a Trading Unit is zero or negative in a given Settlement Period, the Trading Unit is an offtaking Trading Unit, and all the BM Units are deemed to be offtaking BM Units.

The important thing to note is that delivering/offtaking status is completely independent of a BM Unit's P/C Status, and that both are independent of whether the BM Unit is actually exporting or importing. It is therefore possible for a Production BM Unit to be part of an offtaking Trading Unit, or for a Consumption BM Unit to be part of a delivering Trading

What is the solution?

P286 proposes to exclude BM Units that are in delivering Trading Units from RCRC charges/payments.

Unit. In addition, it is possible for a BM Unit to be exporting but classed as a Consumption BM Unit and/or an offtaking BM Unit in a given Settlement Period.

For example, the P/C Status of all Supplier BM Units is fixed as Consumption in every Settlement Period. However, it will still be possible for an individual Supplier BM Unit to export ($QM_{ij} > 0$) in a given Settlement Period even though its Base Trading Unit is offtaking in that Settlement Period, and so the BM Unit would still be classed as offtaking. Similarly, it will still be possible for a Base Trading Unit to export in a given Settlement Period, even though all of its Supplier BM Units have a Consumption P/C Status and some of these BM Units may be importing ($QM_{ij} \leq 0$) in that Settlement Period.

P286 will exclude RCRC from all BM Units that are in a delivering Trading Unit (i.e. have a delivering/offtaking status of 'delivering' in that particular Settlement Period). It should be noted that, as a BM Unit's delivering/offtaking status is calculated separately for each individual Settlement Period, it would be possible for BM Units to be liable for RCRC in one Settlement Period and then be excluded in the next.

Consider, for example, a Trading Unit comprised of generation BM Units and a station demand BM Unit. Ordinarily, this Trading Unit would be a net exporting Trading Unit, and so would be deemed a delivering Trading Unit, and all its BM Units would therefore be exempt from RCRC under P286. Should all the generation BM Units go on outage, the Trading Unit would end up being a net importer of energy, and would be classed as an offtaking Trading Unit in the relevant Settlement Periods. During this time, all these BM Units would become liable for RCRC again.

Legal text

The proposed redlined changes to the BSC to deliver the P286 solution can be found in Attachment B. The Workgroup agrees that these changes deliver the intent of P286, and no Assessment Consultation respondents had any comments on the draft redlining. You can find the full Assessment Consultation responses in Attachment C.

Combined P285/P286 legal text

P285 and P286 will impact the same section of the BSC. You can find an overview of the combined legal text should both of these Modifications be approved in Attachment A.

How does P286 interact with P285?

P286 has been raised in parallel with P285 'Revised treatment of RCRC for Interconnector BM Units', as both of these Modifications seek to amend how RCRC is allocated among BSC Parties. P285 is seeking to exclude Interconnector BM Units from RCRC payments/charges, and has been raised in response to CUSC Modification Proposal (CMP) 202. Consequently, the solutions to these two Modifications are very similar, with the only difference being what type of BM Unit each seeks to exclude from RCRC. However, the solutions to these two Modifications are not dependent on one another.

The changes to the application of BSUoS charges under the CUSC have been raised as two separate CUSC Modifications (CMP202 seeks to exclude BSUoS charges/payments from Interconnector BM Units and CMP201 seeks to exclude BSUoS charges/payments from generation BM Units). It was for this reason that the corresponding changes to the BSC have been raised as two separate Modifications (P285 and P286), in order to align the proposed changes to the BSC with the corresponding changes to the CUSC. This will allow for greater flexibility in Ofgem's decision on the proposed changes, as by keeping the equivalent BSC changes as separate Modifications, Ofgem has the flexibility to approve or reject the BSC changes in line with its decisions on the corresponding CUSC changes.

Is P286 impacted by the Electricity Balancing Significant Code Review?

On 1 August 2012, Ofgem formally launched its Significant Code Review (SCR) on Electricity Balancing. One of the areas that this SCR will look at is the imbalance cash-out arrangements, and any changes that arise in this area may impact the RCRC arrangements. As such, RCRC could be considered to be within the scope of this SCR.

The Proposer raised P286 before this SCR was launched. As such, it is up to the Proposer as to whether or not P286 is put on hold while the 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 P286 on hold, and so P286 will progress irrespective of the SCR.

Some members of the Workgroup believe that the issue raised by P286 would be better discussed as part of the SCR, as this issue should be discussed as part of the wider picture. It is their view that this issue should be debated fully under the SCR, in order to resolve any underlying issues, rather than simply moving cashflows around in response to individual problems. The Proposer observes that the SCR could still examine RCRC as part of its review, and that this proposal could be considered as an interim step given the likely longer timescales involved with the SCR process and implementing any subsequent proposals. You can find full details of the Workgroup's discussions in this area in Section 6.

Are there any alternate solutions?

The Workgroup has considered whether there are any alternative solutions to P286; however it has not identified any which it believes would better facilitate the Applicable BSC Objectives when compared with the Proposer's solution.

One respondent to the P285 Industry Impact Assessment noted that they agreed with removing the component of RCRC that relates to the net imbalance volume. However, they disagreed with the removal of the component that arises due to offsetting imbalances, commenting that this element is independent of BSUoS. The P285 Workgroup had considered this response, but had concluded not to raise this as an alternate solution to P285. The P286 Workgroup felt that, as this solution had not been taken forward under P285, it should also not be taken forward under P286, which would retain consistency between the proposed solutions to the two Modifications.[4]

One Workgroup member believes that a more appropriate solution to P286 is to introduce a single imbalance cash-out price, as this would remove a large proportion of RCRC. However, this member notes that a single imbalance price is one area that will be discussed as part of the Electricity Balancing SCR, and feels that including this as an alternative solution to P286 would not be practical for this reason.

The Workgroup did not consider there to be any other alternate solution to P286, and so has concluded that there are no Alternative Modifications within the scope of P286 which would better facilitate the Applicable BSC Objectives than the Proposed Modification solution.

All Assessment Consultation respondents agree with the Workgroup's view. You can find the full consultation responses in Attachment C.

[4] For more details on the P285 Workgroup's consideration of this potential alternate solution, please see the P285 Final Modification Report.

Estimated central implementation costs of P286

The total central implementation cost for P286 is approximately £70k. This comprises:

- Approximately £59k in SAA and ECVAA costs; and
- Approximately £11k (45 man days) in ELEXON effort.

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

The SAA changes involve amending the calculation of RCRP within the SAA systems so that the Credited Energy Volumes from BM Units that are in delivering Trading Units are excluded. Consequential changes are needed to ECVAA systems to amend some related validation.

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

If the system changes for P286 are implemented at the same time as those for P285, then a cost-saving of approximately 40% can be made on their combined separate costs. See below for more information on the proposed parallel implementation approach for these two Modifications.

Indicative Industry costs of P286

BSC Parties have indicated in the P286 impact assessment that they would incur costs ranging from minimal up to £10k each in implementing P286. These costs are one-off costs in order to make the relevant changes to systems and processes for P286, and no respondents noted any on-going costs following implementation.

Respondents have stated minimal cost-savings if P285 and P286 are implemented in parallel.

Industry Impact Assessment

The full responses made by Parties to the Industry Impact Assessment can be found on the P286 page of the ELEXON website.

Proposed parallel implementation approach with P285

P286 has been progressed in parallel with P285 'Revised treatment of RCRC for Interconnector BM Units', as the changes proposed by P285 are very similar to those proposed by P286, with P285 proposing to exclude Interconnector BM Units from RCRC charges/payments.[5]

P285 has been raised in response to CMP202, which was implemented on 30 August 2012. Consequently, the P285 Workgroup seeks to implement P285 in the earliest viable BSC Systems Release, with the June 2013 Release being the most feasible at present (see Section 5). P286 has been raised in response to CMP201, which, if approved, is unlikely to be implemented before 2015. Consequently, the P286 Workgroup seeks to implement P286 with the same Implementation Date as CMP201.

However, the proposed solutions for P285 and P286 are very similar, with the only difference being the type of BM Unit that each Modification seeks to exclude from RCRC

[5] For more information on the proposed solution to P285, please see the separate P285 Final Modification Report.

charges/payments. Cost-savings can therefore be achieved if the central system changes for P285 and P286 were implemented at the same time.

If P285 and P286 are both approved, then the central system changes required for P286 could be deployed in parallel with those required for P285, but with the P286-specific changes left dormant until the P286 Implementation Date. Once the P286 Implementation Date is reached, the P286-specific changes could then be made live. If this approach was taken, then a cost-saving of around 40% can be achieved on the combined separate costs of each Modification.[6]

It should be noted that these cost-savings would only be achieved if both Modifications were approved. If P286 was approved but P285 rejected, then the costs of P286 would be as stated above. Equally, if P285 and P286 were implemented in separate Releases then the individual costs of each Modification would stand, as the cost-savings would not be realised as a result of parallel implementation.

This approach to implementing the central system changes would not affect the impacts on BSC Parties.

P286 impacts

Impact on BSC Systems and process	
BSC System/Process	Impact
SAA	Changes will be required to the calculation of each Energy Account's RCRP.
ECVAA	Consequential changes will be required to some validation steps as a result of the SAA changes.

Impact on BSC Parties and Party Agents
The Lead Parties of BM Units that are in delivering Trading Units will no longer be charged or paid RCRC on the Credited Energy Volumes from these BM Units. The RCRC payments/charges of all other BSC Trading Parties will increase in order to still allocate the total residual cashflow among all applicable Parties.

Impact on Transmission Company
None identified.

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

[6] The individual central costs of both P285 and P286 are £70k. If one Modification was approved and one rejected, that Modification would therefore incur central costs of £70k. If the Modifications were both approved but implemented separately, the total central costs would be £140k. If the Modifications were implemented in parallel, the combined costs would be £84k.

Impact on Code	
Code Section	Impact
Section T	Changes will be required to implement the solution. See approved legal text in Attachment B.

Impact on Code Subsidiary Documents	
CSD	Impact
SAA Service Description	Changes will be required to implement the solution. If P286 is approved, ELEXON will develop and consult on the necessary redlined changes as part of the implementation project.

Impact on other Configurable Items	
Configurable Item	Impact
SAA User Requirement Specification.	Changes will be required to implement the solution. If P286 is approved, ELEXON will develop and consult on the necessary redlined changes as part of the implementation project.

Other Impacts	
Item impacted	Impact
ELEXON Guidance Documents	Updates will be required to the 'Calculation of RCRC' Guidance Document. If P286 is approved, ELEXON will make these changes as part of the implementation project.

5 Implementation

Recommended Implementation Dates

The Workgroup recommends that P286 is implemented on the same date as CUSC Modification Proposal (CMP) 201, so that the proposed changes to BSUoS and RCRC can be implemented in parallel. However, the implementation date for CMP201 is currently unknown, although it will likely be implemented on 1 April of the appropriate year.

The Workgroup therefore recommends the following Implementation Dates for P286:

- 1 April 2015 if ELEXON receives Ofgem's decision on or before 31 March 2013; or
- 1 April 2016 if ELEXON receives Ofgem's decision after 31 March 2013 but on or before 31 March 2014.

Noting that Ofgem should consider the timing of its decision (and therefore the implementation of P286) in the context of its determination in relation to CMP201 and the implementation of CMP201, if approved.

Respondents to the P286 Impact Assessment have stated that they would need a lead time of up to two years for P286. This is required for them to avoid issues with existing trades and contracts, which would have been agreed by Parties based on the current baseline. By allowing a lead time of two years, Parties have stated that the majority of their contracts will have expired ahead of the P286 Implementation Date, and they would then be able to factor the reallocation of RCRC into any subsequent prices they offer and trades they enter into.

Industry Impact Assessment

The full responses made by Parties to the Industry Impact Assessment can be found on the P286 page of the ELEXON website.

The lead time required for the changes to central systems for P286 is five months, and respondents to the P286 Impact Assessment have stated that they would require no more than three months to implement any system changes that they would require. These lead times are all shorter than the two year lead time requested by respondents above, and therefore it is Parties' need to allow time to amend their contracts for P286 that is driving the lead time for P286.

The P286 Workgroup also notes that a similar lead time has been requested by CUSC Parties for the lead time for CMP201, and that the reasons for this are broadly in line with those given for P286. For full details of the reasons behind the CUSC Parties' requested lead times, please see the CMP201 Workgroup's report to the CUSC Panel.[7]

As P286 has been raised in response to CMP201, and to avoid the situation that would arise if one of these Modifications was implemented without the other, which the Proposer contends would be anomalous, the P286 Workgroup agrees that P286 should be implemented on the same date as CMP201. However, as the Implementation Date for CMP201 is currently unknown[8], it is very difficult to tie the P286 Implementation Date to the CMP201 date, and so the proposed Implementation Date is based on the BSC lead times from the Impact Assessment. Depending on the approach taken for implementing CMP201, Ofgem has the ability to make its decision at a suitable time to achieve parallel implementation, and can request revised Implementation Dates if required, which may include different lead times.

One Assessment Consultation respondent disagrees with these Implementation Dates, believing that P286 will require a lead time longer than two years to account for Parties'

[7] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/currentamendmentproposals/

[8] The CUSC Panel has recommended that the CMP201 Original Solution, which has a two-year lead time, should be implemented.

existing contracts. All other respondents agree with the proposed Implementation Dates. You can find the full consultation responses in Attachment C.

Parallel implementation with P285

The Workgroup has noted that the changes required to implement the P285 proposed solution are very similar to those required for P286, and that if both Modifications were approved, significant cost-saving could be achieved if the changes were deployed together compared to the combined costs for deploying each change individually. Although P286 would not be implemented until much later than P285, the changes required for its solution could be deployed in parallel with those for P285 and left dormant until the required Implementation Date. This would mean that activities such as the development, deployment and testing of the changes could be carried out in parallel, resulting in the cost-savings.

The lead time required for a joint implementation approach are only slightly longer than those for implementing one of the Modifications on its own. The Workgroup has therefore elected to use the slightly longer lead time for the combined approach as the basis for the cut-off dates for an Ofgem decision on P285. However, if P285 is approved, it will be implemented in the first available BSC Release, irrespective of when P286 is approved; if P286 has not been approved by the cut-off date for the Release that P285 has been approved for then it will, if approved, be deployed separately in a later Release instead.

In summary, if both P285 and P286 are approved, then:

- If P286 is approved before P285, the system changes for both Modifications will be deployed together, achieving the cost-savings noted in Section 4;
- If P286 is approved after P285, but on or before the cut-off date for the corresponding Release, the system changes for both Modifications will be deployed together, achieving the cost-savings noted in Section 4; or
- If P286 is approved after P285 and after the cut-off date for the corresponding Release, the system changes for P286 will be deployed in a separate Release, and the cost-savings noted in Section 4 would not be achieved.

The proposed Implementation Dates for P285 are:

- 27 June 2013 (June 2013 BSC Systems Release) if ELEXON receives Ofgem's decision on or before 24 January 2013; or
- 7 November 2013 (November 2013 BSC Systems Release) if ELEXON receives Ofgem's decision after 24 January 2013 but on or before 6 June 2013.

However, the Workgroup notes that P285 has been raised in response to European legislation, while P286 has not, and that any cost-savings that would arise from implementing P285 and P286 in parallel, while not insignificant, would be far less than the costs GB would incur if the European Commission was to question any perceived non-compliance. Therefore, Ofgem may wish to achieve a quicker implementation for P285, even if that means not being able to realise any cost-savings that would arise from a parallel implementation approach.

Is P286 appropriate?

The Workgroup has considered whether any changes to the BSC are required to align the BSC with the changes being made under the CUSC by CMP201, and, if so, whether P286 is the correct solution.

Are RCRC and BSUoS linked?

The Proposer believes that there is a relationship between RCRC and BSUoS, and that these two cashflows can be thought of as two sides of the same coin, as both cashflows are derived from the costs incurred by the System Operator in resolving energy imbalances on the system, as described in Section 2. If CMP201 is approved, then a situation would exist whereby some Parties would no longer be required to pay the BSUoS charge, and so would not contribute to the costs incurred by the System Operator in resolving any imbalance on the system. However, these Parties would still be liable for RCRC.

Consider the scenario where a Party is perfectly balanced in a given Settlement Period, and therefore is not exposed to any imbalance charges. However, other Parties are short, and the System Operator has taken actions to ensure the system remains balanced. Under the current arrangements, this Party would be liable for a portion of the BSUoS charge to recover the costs incurred by the System Operator, and would also receive a share of the RCRC resulting from the imbalance charges levied under the BSC. These two charges would net off against each other. However, under P286, some or all of the BM Units belonging to this Party may be in delivering Trading Units, and, if CMP201 is approved, this Party would not have to pay BSUoS against the corresponding Metered Volumes. However, they would still receive a share of the RCRC against these Metered Volumes. It is the Proposer's view that this could be deemed a windfall gain, and that this Party should not benefit in this way from imbalance caused by other Parties.

The majority of the Workgroup agree with the Proposer's view. However, one Workgroup member disagrees, and believes that BSUoS and RCRC are separate cashflows and that changes to the allocation of RCRC under the BSC are not needed in response to the proposed changes to BSUoS allocation under the CUSC. This member notes that the BSUoS charge is a cost-recovery mechanism levied by the System Operator in order to recover the costs incurred in balancing the system. This charge is not comprised solely of the costs of energy balancing actions, but also includes actions taken to alleviate system constraints as well as ancillary service charges, neither of which are related to imbalance. This cost-recovery mechanism is levied on CUSC Parties in proportion with their Metered Volumes, but this is only one of a number of ways that these costs could be recovered. In addition, it is for the System Operator to determine who it feels should be responsible for the costs incurred in balancing the system, and thus who should be liable for BSUoS under the CUSC.

In contrast, RCRC arises from the imbalance charging mechanism under the BSC, which the Workgroup member believes is separate from the cost-recovery mechanism under the CUSC described above. The imbalance charges are designed to act as an incentive to Parties to balance their positions. If a Party is better able to balance their position then their RCRC payment could be viewed as a 'reward'. One Impact Assessment respondent also considered that, while there may be a correlation between RCRC and BSUoS, the real relationship is between RCRC and cash-out; if a Party is subject to one then they should also be subject to the other, as RCRC is a component of the imbalance charging mechanism.

In addition, this Workgroup member considers that any correlation between RCRC and BSUoS is poor. They note that energy balancing costs are only a component of BSUoS, and BSUoS as a whole is very nearly always a charge. In contrast, RCRC can change between being a charge or a payment from one Settlement Period to the next. However, other Workgroup members note that the energy balancing component of BSUoS can itself flip between being a charge or a payment, and if it is a payment then it would net off against the remaining BSUoS charges, lowering the overall BSUoS charge levied against Parties.

The Workgroup considered that if CMP201 is implemented and P286 is not then that could impact Parties' incentive to balance. They believe that if a generator was not subject to BSUoS, but was still subject to RCRC, then they would be less incentivised to balance, as they would not have to contribute to the costs of balancing the system but would receive a subsequent payment through the RCRC mechanism. If this were the case, this would make it more difficult for the System Operator to balance the system. In addition, while this would weaken the signals for generators to ensure that they were balanced, it would strengthen the signals for Suppliers, which could be perceived as discrimination between the different types of Party. However, some Workgroup members wonder whether the process of redistributing the net moneys across Parties could itself act as a disincentive to balance.

Is P286 the right solution?

The Workgroup has considered whether the solution proposed by P286 is the correct solution. As noted above, one Workgroup member feels that P286 is not an appropriate change, as they believe RCRC and BSUoS are not related cashflows. However, several Workgroup members have noted that they do not agree with the proposed changes to the CUSC from which P286 has originated, and that they only agree with P286 because of the changes progressing under the CUSC; they feel that neither change should progress.

One Workgroup member commented that this was not necessarily a reason to support P286, and that approval of P286 would simply compound the problem. They believe that it is better to reject P286 and to examine the issue in a more holistic manner as part of the Electricity Balancing SCR. The solution put forward by P286 will simply move cashflows between Parties; it is more of a 'sticking plaster' solution. It will not solve any of the underlying issues that exist within the imbalance charging mechanisms, which would be examined if this issue was looked at as part of the SCR.

The Workgroup notes that a large proportion of the RCRC exists because of the dual cash-out price mechanism. Consequently, any offsetting imbalances will always result in residual money, as the Parties who were short will pay more in imbalance charges than the Parties who were long will receive. This residual money is redistributed back to all BSC Parties, in proportion with their Credited Energy Volumes, creating a 'closed loop' and ensuring that all imbalance charging nets to zero in each Settlement Period. However, if there was a single cash-out price then there would no longer be any residual money arising from offsetting imbalances, and the Workgroup considers that this could have formed an alternate solution to P286. However, a single cash-out price is one area being considered by the SCR, and so the Workgroup has agreed not to raise this as an alternative solution to P286.

One Workgroup member had concerns that P286 would expose Suppliers to imbalance costs that had not been caused by them. They believe that if generators are no longer liable for RCRC charges/payments, meaning that Suppliers would be liable for the full amount, Suppliers may be exposed to costs arising from imbalances that were caused by generators. Any imbalance caused by any Parties will have an impact on both BSUoS and RCRC charges/payment, but if Parties are not liable for these cashflows, their incentives to balance may be weakened. Another Workgroup member noted that this could be a benefit to Suppliers if RCRC was a payment to them. They considered that not implementing P286 should CMP201 be approved would have the bigger impact, as that scenario would be more likely to give rise to windfall gains or losses. They believe that such a situation would also reduce the incentives on generators to balance their position, as they could receive RCRC payments arising from imbalance settlement without having to contribute to the costs of resolving the imbalance.

Several Workgroup members note that P286 has been raised in response to CMP201. Although the solution to P286 could fall within the scope of the SCR, it still remains that a change has been raised under the CUSC which, if approved, could have an impact on the BSC. The Workgroup notes that P286 would not be implemented any earlier than 2015, by which time the SCR should have concluded and any Modifications arising from it will likely have been raised. In the event that the outcome of the SCR conflicts with the changes proposed by P286, then there would be time to raise a Modification that would undo the P286 changes. In the meantime, the Workgroup believes that, as it is not known at this time what the outcome of the SCR will be or how this may impact RCRC, P286 should progress in order to put in place an appropriate solution to the issue that has been identified.

What is the materiality of P286?

P286 will reallocate RCRC charges/payments across BSC Parties in a different way. On the Workgroup's behalf, ELEXON has undertaken analysis of the potential effect P286 may have on the allocation of RCRC. This analysis uses real data from 2011, and models the effect that P286 would have had on the distribution of RCRC across this time should P286 have been in place and assuming that all other factors, including Parties' behaviour, remain unchanged.

Attachment A contains the full results of this analysis. Overall, the analysis indicates that there would be a gross materiality of around 50% of the total RCRC, as around -£10.6m of the -£21.2m RCRC pot in 2011 was allocated to BM Units in delivering Trading Units. However, many Parties will hold some BM Units that are in delivering Trading Units and some that are in offtaking Trading Units in the same Settlement Periods (for example, a Party with both BM Units belonging to generation sites and Supplier BM Units). In this case, the Party would see both a reduction in RCRC charges/payments against their delivering BM Units and an increase in RCRC charges/payments against their offtaking BM Units, resulting in a net change in their RCRC charges/payments. Taking such netting of charges/payments into consideration, the net materiality is around 35% of the total RCRC, based on around -£7.5m in 2011 being moved from one Party to another.

The Workgroup noted that the results of the analysis gave a net figure for each Party. However, the impact on each Party would vary depending on whether RCRC is positive or negative, and whether the Party has a positive or negative RCRP in a given Settlement Period. Therefore, while the analysis gives a high-level view of how P286 will affect the allocation of RCRC, the impacts will vary between Settlement Periods.

One Workgroup member considered what impact P286 may have on power prices, noting that if a generator is no longer liable for RCRC then they may factor that change into the prices they charge for generation. This member notes that, should CMP201 be implemented without P286, then generators would generally benefit from receiving RCRC without having to pay BSUoS, and that they may choose to factor this 'windfall' into their power prices. In this scenario, a windfall gain to generators would likely result in power prices decreasing. The Workgroup has noted that the analysis carried out for P286 was done using data from 2011, and that RCRC was a net charge on Parties over that period. This would likely have the opposite effect, whereby generators would have to pay RCRC without receiving BSUoS, and so may increase power prices to compensate. Another Workgroup member considers that many Modifications will tend to impact power prices in some way, and that this modification is not unique in that respect. The first Workgroup member feels that this Modification would have a more significant impact than others, but other Workgroup members believe the materiality of P286 on power prices will be low.

The Workgroup considered how well Parties would be able to forecast RCRC prices ahead of time, in order to be able to factor them into any changes in power prices, or whether a generator would attempt to include any windfall gains/losses they may make into their power prices or pass them on in another way. For example, if a generator is expecting to receive £1/MWh in RCRC, then they may have factored this into their prices. However, if this £1/MWh was to be removed, then the generator would likely seek to increase their prices by a corresponding amount to make up the difference. It should also be noted that the generator will likely have factored their BSUoS charges into their pricing calculations as well, and that if they are no longer liable for BSUoS but still pay/receive RCRC then the generator may seek to amend their prices accordingly.

The Workgroup notes that there is uncertainty around several factors in any Settlement Period; for example, how well a Party is able to forecast imbalances. All of this uncertainty is factored into any prices that generators offer to the market, and so any uncertainty around RCRC would simply be added into this.

The Workgroup agrees that, while P286 may have an impact on the prices offered by generators, it would be difficult to calculate what these impacts would be without obtaining the relevant details from individual Parties, which Parties are unlikely to divulge. The prices that generators offer for power are a matter for them and their customers, and would be agreed between themselves through bilateral trading, which lies outside of the BSC. In any event, different Parties are likely to take different approaches to calculating prices, which would make it harder to ascertain the impact that P286 may have. The Workgroup notes that some analysis was carried out in this area by the CMP201 Workgroup, and the results of this analysis can be found in the CMP201 Workgroup's report to the CUSC Panel.[9]

[9] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/currentamendmentproposals/

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 P286 better facilitate the Applicable BSC Objectives?		
Obj	Proposer's Views	Other Workgroup Members' Views[10]
(a)	• **Yes** – Takes into consideration National Grid's obligations to account for developments arising from European legislation, and ensure that appropriate financial BSC arrangements are in place. Although P286 has not itself arisen from any European legislation, it has been raised in response to P285, which is related to European legislation.	• **Yes** (majority) – Agree with Proposer. • **No** – Don't agree that RCRC and BSUoS are linked. Therefore, any changes to BSUoS under the CUSC do not impact on the RCRC arrangements under the BSC. • **Neutral** – Not convinced of the link to National Grid's obligations.
(b)	• **Yes** – Implementing CMP201 without implementing P286 may reduce Parties' incentive to balance. This would make it harder for the System Operator to balance the system.	• **Yes** – Agree with Proposer. • **Neutral** – Uncertain whether there would be any impact on a Party's incentive to balance.
(c)	• **Yes** – Aligning RCRC beneficiaries with those that are liable for BSUoS permits trades across Interconnectors to be based on price differentials, undistorted by RCRC charges/payments. • **Yes** – Would prevent generators from receiving windfall gains or losses that would arise from being liable for RCRC but not liable for BSUoS. • **Yes** – Would allow GB generators to compete on an equal basis with generation imported into GB across an Interconnector.	• **Yes** (majority) – Agree with Proposer. (Conditional on CMP201 approval: if CMP201 is approved then 'Yes'; if CMP201 is rejected then 'No'.) • **Yes** – Would remove an obstacle to the implementation of CMP201, which would help to promote competition within the GB market. • **Yes** – If CMP201 is implemented, then it would be better overall to implement P286 than to not implement. • **No** – Cash-out prices provide Parties with an incentive to balance. As both generators and Suppliers cause imbalance, both should be subject to the imbalance mechanism, which includes RCRC.
(d)	• **Neutral** – No impact.	• **Neutral** – No impact.
(e)	• **Neutral** – No impact.	• **Neutral** – No impact.

[10] Shows the different views expressed by the other Workgroup members – not all members necessarily agree with all of these views.

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 [for the Co-operation of Energy Regulators]

By majority, the Workgroup believes that P286 does better facilitate the Applicable BSC Objectives, and therefore recommends that P286 is approved.

However, Workgroup members note that their recommendation is conditional on CMP201 also being approved by Ofgem, and the Workgroup unanimously believes that if CMP201 is rejected then P286 should also be rejected.[11]

Assessment Consultation respondents' views on the Applicable BSC Objectives

A majority of respondents to the Assessment Consultation agree with the Workgroup's majority view that P286 better facilitates the Applicable BSC Objectives. All respondents are neutral on Applicable BSC Objectives (d) and (e), with arguments based on Applicable BSC Objectives (a), (b) and (c). The arguments for and against are broadly in line with those expressed by the Workgroup.

One respondent in support of P286 believes that if BSUoS is removed from GB generation under CMP201, then RCRC could be seen as a charge/payment on these generators for which there is no common European equivalent. They believe that this could have the potential to distort competition on cross-border trades. Without the energy balancing element of BSUoS, there would be no 'counterbalance' to RCRC, which could impact the prices offered by generators. This could also impact on generators' incentive to self-balance, as they could 'receive' RCRC without 'paying' for energy balancing through BSUoS, potentially increasing energy balancing costs.

Other respondents in support of P286 also consider that removing RCRC from those who would not be liable for BSUoS would prevent any anomalous situations from occurring, and would prevent any windfall gains/losses from being realised.

It should be noted that several respondents consider P286 to be conditional on CMP201, and they believe that if CMP201 is rejected then P286 should also be rejected.

However, a minority of respondents do not support P286. In particular, one respondent agrees with the Workgroup member who considers that there is not a link between RCRC and BSUoS. Therefore, they feel that the changes made to BSUoS under CMP201 do not require the changes proposed by P286.

Some respondents also consider that RCRC is a product of the energy imbalance mechanism, and that all Parties, including both generators and Suppliers, contribute to this mechanism. Consequently, all Parties should be subject to the full mechanism, which includes RCRC payments/charges. One respondent believes that removing RCRC from generation BM Units may also impact on incentives to balance, and could also create windfall gains and losses for demand BM Units relating to imbalances beyond their control.

You can find the full responses made by respondents to the Assessment Procedure Consultation in Attachment C.

Assessment Procedure Consultation

The full responses made by Parties to the Assessment Procedure Consultation can be found in Attachment C.

[11] The CUSC Panel recommended by majority that the CMP201 Original Solution should be implemented at its meeting on 28 September 2012. Ofgem has sent CMP201 back to the CUSC Panel, where it is undergoing further analysis.

7 Panel's Initial Discussions

Panel's views on the Applicable BSC Objectives

The majority of Panel Members agree with the Workgroup's majority view that P286 better facilitates Applicable BSC Objectives (a), (b) and (c), while a minority of Panel Members believe P286 does not better facilitate any of the Applicable BSC Objectives. The reasons for and against are broadly in line with those of the Workgroup as set out in Section 6.

Panel Members considered the impacts of P286 on competition. One Panel Member noted the view that removing BSUoS (as a result of CMP202) and RCRC (should P285 be approved) from Interconnector Users could give imports over the Interconnectors a competitive advantage over domestic generators. However, another Workgroup Member considered that this competition issue is dependent on how generation is treated in other European countries. They note that it is often, but not always, the case that in other countries, the equivalent charges would be picked up only by participants from the demand side of the market. They also believe that any issues surrounding differing arrangements would be better resolved as part of wider market harmonisation approaches.

One Panel Member commented on the information published as part of the CMP201 Final Modification Report on how equivalent charges in other European countries are applied, and noted that such information had not been included as part of the P286 Assessment Report. They requested that a link to the original information on the ENTSO-E website be provided as part of the P286 Modification Report. This information is available here.[12]

Panel Members note the view of Workgroup members that approval of P286 should be dependent of Ofgem's decision on CMP201, and that the Workgroup's recommendation for P286 has been given on the assumption that CMP201 will be approved. The Ofgem Representative informed the Panel that CMP201 was currently with the Authority for decision. However, they stated that the progression of P286 should not be delayed in order to wait for a decision to be made on CMP201, and the Panel should make a recommendation on P286 based on its own merits. One Panel Member felt that if P286 was to be judged on its own merits then it should be rejected, and that it is only when considered in the wider context that P286 should be approved. Another Panel Member considered that Members' positions on P285 would likely inform their position on P286.

By majority, the Panel believes that P286 does better facilitate the Applicable BSC Objectives, and therefore initially recommends that P286 is approved.

Panel's views on legal text

The Panel unanimously agrees with the Workgroup's view that the proposed changes to the BSC in Attachment B deliver the intention of P286.

Panel's views on Implementation Date

The Panel unanimously agrees with the Implementation Date proposed by the Workgroup, as detailed in Section 5.

[12] https://www.entsoe.eu/market/transmission-tariffs/

8 Report Phase Consultation Responses

This section summarises the responses to the Panel's Report Phase Consultation on its initial recommendations. You can find the full responses in Attachment D.

All of the Parties who responded to the Assessment Procedure Consultation also responded to the Report Phase Consultation, in addition to five new respondents.

Summary of P286 Report Phase Consultation Responses			
Question	Yes	No	Neutral/No Comment
Do you agree with the Panel's initial recommendation that P286 should be approved?	8	3	0
Do you agree with the Panel's recommended Implementation Date?	8	2	1
Do you agree with the Panel that the redlined changes to the BSC deliver the intent of P286?	9	0	2
Do you have any further comments on P286?	4	7	0

Views on Applicable BSC Objectives

The majority of respondents to the Report Phase Consultation agree with the Panel's initial view that P286 would better facilitate Applicable BSC Objectives (a), (b) and (c). The main argument put forward by these respondents is that, should BSUoS charges/payments be removed from generators under CMP201, it would be appropriate to remove RCRC charges/payments too, as the two charges are related, and respondents generally believe that the Authority's decision on P286 should align with that for CMP201.

Respondents also consider that this would better facilitate competition as aligning those liable for RCRC with those liable for BSUoS would allow GB generators to compete on an equal basis with imports over the Interconnectors. It would also prevent generators from receiving windfall gains or losses that could arise from being exposed to RCRC but not to BSUoS. Respondents also consider that, while there is no European legislation requiring this change, P286 takes into account National Grid's obligation to account for developments arising from Europe and ensure appropriate BSC arrangements are in place.

Some respondents feel that, if CMP201 is approved without P286, this could reduce Parties' incentives to balance, which would make it harder for the System Operator to balance the system. One respondent also comments that, should P286 be approved, it may be beneficial to monitor energy imbalances to ensure that the removal of RCRC from generators does not itself lead to a reduction in incentive for Parties to balance.

One respondent also feels that P286 would better facilitate Applicable BSC Objective (d). They believe it would be more efficient for the market that, should CMP201 be approved, the cashflows associated with BSUoS and RCRC move between offtaking BM Units only. This respondent also believes that P286 would promote more cross border competition within Europe. Most generators in Europe do not pay similar types of system charges, which are ultimately passed to customers through wholesale power prices. P286 would therefore place UK generators on a more level playing field with European generators, and so cross-border trading would increase, enhancing the level of competition.

What are Report Phase respondents' views?

The majority of respondents support approving P286.

The full responses made by Parties to the Report Phase Consultation can be found in Attachment D.

However, a minority of respondents disagree with the Panel's initial view. These respondents do not feel that the allocation of RCRC needs to be changed in response to the corresponding changes to the allocation of BSUoS charges. They note that, while there are links between RCRC and BSUoS, the real relationship is between Imbalance cash-out and RCRC. RCRC is a product of the Imbalance cash-out mechanism, and so should be applies to all Parties that contribute to this.

There are also concerns that removing of RCRC from generation BM Units would also impact Parties' incentives to balance. It could also also create windfall gains and losses for demand BM Units that relate to imbalances over which they have no control.

One respondent notes that the correlation between BSUoS and RCRC exists because it is the same generators providing the same balancing actions into both mechanisms, meaning the prices will track each other. They feel that if there is an issue of pollution of energy costs within BSUoS, this should be dealt with under the CUSC or the SCR and not in the BSC.

Views on Implementation Date

The majority of respondents to the Report Phase Consultation support the Implementation Date proposed by the Panel for P286, and reiterate the view that, should P286 be implemented, that it is implemented on the same date as CMP201 (if approved). However, one respondent considers that P286 should be brought in a year earlier, in 2014, to reduce competitive distortions as soon as possible. They are also concerned that hard-wiring the date may cause issues with the corresponding BSUoS changes.

It should be noted that the Proposer is seeking to implement P286 (if approved) on the same date as CMP201 (if approved), and that this is a key element of their proposal, in order to prevent a potentially anomalous situation where Parties are liable for one charge but not for the other. It should also be noted that Ofgem has the ability to time its decision on P286 to achieve such a parallel implementation should it wish, and can request revised Implementation Dates if required (see Section 5).

Views on legal text

No respondents disagree with the proposed legal text for P286. You can find the proposed changes in Attachment B.

9 Panel's Final Discussions

Panel's final views on the Applicable BSC Objectives

The unanimous final view of Panel Members is that P286 would better facilitate Applicable BSC Objectives (a), (b) and (c). The views of these Members are in line with those that have been previously expressed by Workgroup members in Section 6 and Report Phase Consultation respondents in Section 8 who felt P286 did better facilitate the Applicable BSC Objectives.

The Panel unanimously believes that P286 does better facilitate the Applicable BSC Objectives, and therefore recommends that P286 should be approved.

Panel's final views on Implementation Date

The Panel unanimously approved the proposed changes to the BSC for P286, which can be found in Attachment B.

Panel's final views on legal text

The Panel unanimously approved the implementation approach proposed by the Workgroup, as detailed in Section 5.

10 Recommendations

The BSC Panel recommends to the Authority:

- That P286 **should** be made;
- An Implementation Date for P286 (if approved) of:
  - 1 April 2015 if an Authority decision is received on or before 31 March 2013; or
  - 1 April 2016 if an Authority decision is received after 31 March 2013 but on or before 31 March 2014; and
- The BSC legal text for P286.

Recommendation

The Panel unanimously recommends that P286 should be approved.

11 Further Information

More information is available in:

Attachment **A**: Detailed Assessment

Attachment **B**: Approved Legal Text

Attachment **C**: Assessment Consultation Responses

Attachment **D**: Report Phase Consultation Responses

For further information, including a complete version of the impact assessment responses received, please see the P286 page of the ELEXON website.

Appendix 1 – Estimated Industry Progression Costs

Initial estimate of industry progression costs from the IWA

Estimate of Total Industry Assessment Costs – Initial Written Assessment					
Workgroup support	Est #mtgs	Est #att	Est effort	Est rate	Sub-total
	3	8	1.5	£605	£21,780
Consultation response support	Est #cons	Est #resp	Est effort	Est rate	Sub-total
	3	8	2.5	£605	£36,300
				Total Costs	**£58,080**

Updated estimate of industry progression costs

Estimate of Total Industry Assessment Costs – Modification Report					
Workgroup support	Meeting	Act #att	Est effort	Est rate	Sub-total
	1	6			£5,445
	2	7	1.5	£605	£6,353
	3	6			£5,445
Consultation response support	Consultation	Act #resp	Est effort	Est rate	Sub-total
	IA	8			£12,100
	Assessment	6	2.5	£605	£9,075
	Report	11			£16,638
				Total Costs	**£55,056**

Industry Assessment Costs

Industry Workgroup support and consultation response costs represent an approximation of industry time and effort in attending Workgroup meetings and responding to consultations.

The initial calculation is based upon an estimate of how many attendees we expect to attend each meeting and how many responses we expect to receive to each consultation.

The updated calculation is based on the actual number of attendees at each meeting and the actual number of responses received to each consultation.

The calculations assume that each attendee will require 1.5 man days of effort per meeting and each response will take 2.5 man days of effort, multiplied by a standard rate of £605 per man day.