

## P351 'Align the BSC with changes to the SCR requirements'

'Modification of Section F of the BSC is required to align it with the changes to Standard Licence Condition C3 (SLC3). Ofgem wishes to introduce more flexibility to the BSC Modifications process for SCRs. The proposed changes include three routes for undertaking an SCR with potential allowance to move between the processes'



ELEXON recommends P351 is progressed to the Assessment Procedure for an assessment by a Workgroup

This Modification is expected to impact:

- ELEXON

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## About This Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the Panel on 11 August 2016. The Panel will consider the recommendations and agree how to progress P351.

There are two parts to this document:

- This is the main document. It provides details of the Modification Proposal, an assessment of the potential impacts and a recommendation of how the Modification should progress, including the Workgroup's proposed membership and Terms of Reference.
- Attachment A contains the P351 Proposal Form.



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# 1 Why Change?



## Why do we need to change the Modifications process?

In 2010, Phase 1 of Ofgem's [Code Governance Review](#) (CGR) implemented measures to improve the governance arrangements in three of the main industry codes that underpin the gas and electricity markets (including the BSC). In 2013, Phase 2 of the CGR extended many of the outcomes to the remaining industry codes.

In May 2015, Ofgem announced its intention to conduct Phase 3 of the review (CGR3). This was due to concerns that the code governance arrangements may still not be operating in the best interest of consumers. This was particularly in light of significant changes to the industry such as the roll out of smart meters, the low carbon transition and the European Union (EU) Third Energy Package.

## What is the issue?

Ofgem published its [final proposals for Phase 3 of the CGR](#) in March 2016. These proposals took into account feedback on the initial proposals as well as input from industry and Code Administrators' workshops (which ELEXON attended). One proposal plans changes to the Transmission Licence, Standard Licence Condition C3 'BSC' (SLC3). The SLC3 creates additional routes for undertaking a Significant Code Review (SCR). These changes are due to become effective from 31 March 2017.

## What is SCR?

The Significant Code Review (SCR) process has been added to the licence in order to facilitate significant industry changes in the most efficient manner.

Ofgem has the sole right to raise SCRs, but will consult on scope of the review before commencing the SCR. Once commenced the SCR will utilise a number of industry workshops to develop an SCR conclusion.

The period between the SCR commencing and SCR closing is known as the "SCR Phase". Further details on the SCR process can be found in the final licence modifications.

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### Proposed solution

Modification of Section F of the BSC is required to align it with the changes to SLC3. Ofgem wishes to introduce more flexibility to the BSC Modifications process for SCRs. The proposed changes include three routes for undertaking an SCR (see below) with potential allowance to move between the processes. It is hoped that this will accelerate the change process and enable more efficient delivery of priority Modifications.

#### 1. Ofgem directs licensee(s) to raise Modification Proposal(s)

At the end of the SCR process Ofgem would issue a direction to the relevant licensee(s). This direction may set out high level principles (with the detail to be developed by industry) or more specific, detailed conclusions to be given effect through code change(s). The Modification(s) would follow the standard industry code Modification processes.

#### 2. Ofgem raises Modification Proposal(s).

At the end of the SCR process Ofgem would raise a Modification(s) under the relevant code(s), and the Modification(s) would follow the standard industry code Modification processes.

#### 3. Ofgem leads an end-to-end process to develop code Modification(s).

The standard industry process would not apply; Ofgem would lead consultation and engagement needed to develop the appropriate code change(s). Ofgem would expect close involvement of the industry; for example, it may establish and lead Workgroups similar to the approach under the standard code Modification processes (but led by Ofgem).

### Applicable BSC Objectives

This Proposed Modification will better facilitate:

Applicable BSC Objective (a) 'the efficient discharge by the Transmission Company of the obligations imposed upon the Transmission Licence' by ensuring that the BSC correctly reflects the conditions under which the Authority can raise or direct the Licensee to raise Modifications relating to electricity regulation.

Applicable BSC Objective (d) 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements' by ensuring that the BSC accurately reflects the provisions set out in Standard Licence Condition C3 covering the circumstances and processes to be followed in relation to Authority raised Modification Proposals and SCR processes. Therefore ensuring such Modifications Proposals are progressed efficiently and effectively.

### 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]

(f) Implementing and administrating the arrangements for the operation of contracts for difference and arrangements that facilitate the operation of a capacity market pursuant to EMR legislation

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### 3 Areas to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on progressing this Modification Proposal, and which a Workgroup should consider as part of its assessment of P351. We recommend that the areas below form the basis of a Workgroup's Terms of Reference, supplemented with any further areas specified by the Panel.

#### **How efficient is the process to transition between the three proposed SCR routes for the progression of a Modification?**

The Workgroup should consider any additional steps that should be taken to ensure smooth transition between the three proposed SCR routes for the progression of a Modification. In particular we should consider the effect of moving into and back out of the proposed option 3.

#### **What the impacts and risks for ELEXON, where Ofgem raises, assesses, and sets Implementation Dates (option 3)? How can these be addressed and mitigated?**

The Workgroup should consider what the impacts and risks are for ELEXON in managing SCR Modifications implementation.

#### **Areas to consider**

The table below summarises the areas we believe a Modification Workgroup should consider as part of its assessment of P351:

Areas to Consider
How efficient is the process to transition between the three proposed SCR routes for the progression of a Modification?
What the impacts and risks for ELEXON, where Ofgem raises, assesses, and sets the Implementation Dates (option 3)? How can these be addressed and mitigated?
What changes are needed to BSC documents, systems and processes to support P351 and what are the related costs and lead times?
Are there any Alternative Modifications?
Does P351 better facilitate the Applicable BSC Objectives than the current baseline?
Should P351 be determined as a Self-Governance Modification?



### Next steps

We believe that P351 should go into an Assessment Procedure so that a Workgroup can consider the areas set out in Section 3. We believe that P351 should progress under self-governance as the creation of this Modification Proposal by the Proposer was directed by Ofgem as part of the CGR3. Although it will impact the governance of the BSC in the changes applied to Section F, these changes will be focussed on the SCR process and have been mandated by the Authority.

### Self-Governance

This Modification seeks to align the BSC with the SLC3. The creation of this Modification Proposal by the Proposer was directed by Ofgem as part of the CGR3. Although it will impact the governance of the BSC in the changes applied to Section F, these changes will be focussed on the SCR process and have been mandated by the Authority.

The Proposer believes this will have no material impact on any of the areas listed under the Self-Governance Criteria. They therefore believe that this Modification should be progressed as a Self-Governance Modification. We agree with this view.

### Workgroup membership

We recommend that the P351 Workgroup should be formed of experts on BSC Governance, including the BSC change processes; and any other interested parties.

### Timetable

We recommend that P351 undergoes a three month Assessment Procedure, with the Assessment Report being presented to the Panel at its meeting on 08 December 2016. This will allow time for the Workgroup to discuss the areas in Section 3 and develop the solution before issuing its 15 Working Day Assessment Procedure Consultation.

Proposed Progression Timetable for P351	
Event	Date
Present Initial Written Assessment to Panel	11Aug 2016
Workgroup Meeting 1	W/B 05 Sep 16
ELEXON Impact assessment / Legal text drafting	12 Sep 16 – 30 Sep 16
Workgroup Meeting 2 (If required)	W/B 03 Oct 16
Assessment Procedure Consultation	17 Oct 16 – 04 Nov 16
Workgroup Meeting 3	W/B 14 Nov 16
Present Assessment Report to Panel	08 Dec 16
Report Phase Consultation (13 Working Days)	09 Dec 16 – 30 Dec 16
Present Draft Modification Report to Panel	12 Jan 2017

### What is the Self-Governance Criteria?

A Modification that, if implemented:

(a) is unlikely to have a material effect on:

- (i) existing or future electricity consumers; and
- (ii) competition in the generation, distribution, or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and
- (iii) the operation of the national electricity transmission system; and
- (iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and
- (v) the Code's governance procedures or modification procedures; and

(b) is unlikely to discriminate between different classes of Parties.

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## 5 Likely Impacts

### Impact on BSC Parties and Party Agents

Party/Party Agent	Potential Impact
No Impact	

### Impact on Transmission Company

No Impact
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### Impact on BSCCo

ELEXON will be required to implement this Modification.

Changes will be required to ELEXON's working instructions and guidance

### Impact on BSC Systems and processes

BSC System/Process	Potential Impact
No Impact	

### Impact on Code

Code Section	Potential Impact
Section F	Changes would be required to implement this Modification
Annex X-1	

### Impact on Code Subsidiary Documents

CSD	Potential Impact
BSCP 40	Changes would be required to implement this Modification.

### Impact on other Configurable Items

Configurable Item	Potential Impact
BSC Change Management Guidance notes	Changes would be required to implement this Modification.

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## 6 Recommendations

We invite the Panel to:

- **AGREE** that P351 progresses to the Assessment Procedure;
- **AGREE** the proposed Assessment Procedure timetable;
- **AGREE** the proposed membership for the P351 Workgroup; and
- **AGREE** the Workgroup's Terms of Reference.

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## Appendix 1: Glossary & References

### Acronyms

Acronyms used in this document are listed in the table below.

Acronym	
Acronym	Definition
CGR	Code Governance Review
CGR3	Code Governance Review phase 3
EU	European Union
IWA	Initial Written Assessment
SCR	Significant Code Review

### External links

A summary of all hyperlinks used in this document are listed in the table below.

All external documents and URL links listed are correct as of the date of this document.

External Links		
Page(s)	Description	URL
3	Link to Ofgem code governance review webpage	<a href="https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work/code-governance-review#of-block-views-publications-and-updates-block">https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work/code-governance-review#of-block-views-publications-and-updates-block</a>
3	Link to Code Governance Review phase 3 Proposals	<a href="https://www.ofgem.gov.uk/system/files/docs/2016/03/code_governance_review_phase_3_final_proposals_2.pdf">https://www.ofgem.gov.uk/system/files/docs/2016/03/code_governance_review_phase_3_final_proposals_2.pdf</a>