

By email to energymarket@cma.gsi.gov.uk

Will Fletcher
Project Manager
Energy Market Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

14 December 2015

Dear Will,

ELEXON's comments on the CMA's notice regarding assessment methodology for losses remedy – consultation on methodology and scenarios

ELEXON Limited is the administrator for the Balancing and Settlement Code (BSC). We are also responsible for the operation of imbalance settlement (delivered by our BSC Agents) as set out under the BSC. The views expressed in this response are those of ELEXON Limited, and do not seek to represent those of the BSC Panel or Parties to the BSC.

In our response¹ to the CMA's July 2015 provisional findings, we noted that proposed Remedy 1 may require consequential BSC changes to introduce a locational pricing mechanism for transmission losses.

In September 2015, the CMA published a notice of its intention to carry out a new cost-benefit analysis in relation to this remedy. In our response² we noted that, depending on the solution adopted, these BSC changes may be large or small. We therefore believe it is important that ELEXON provides input to the proposed cost-benefit analysis methodology and scenarios.

The CMA has recognised the extensive analysis conducted previously under a series of BSC Modifications including, most recently, Modification Proposal P229 'Introduction of a seasonal Zonal Transmission Losses scheme'³. Based on our experience of these Modifications, we offer (in Appendix A) some observations on NERA's proposed methodology and scenarios.

If Remedy 1 is progressed through a BSC Modification, we will support the Modification's development and assessment in the usual, impartial, way. In this event, we would encourage the CMA to make its cost-benefit analysis results available to any subsequent BSC Modification Workgroup. This will minimise the risk of duplicating effort when considering the details of any proposed BSC solution. In Appendix A, we offer some thoughts on the potential interaction between the cost-benefit analysis and any subsequent BSC Modification.

It is important that the CMA understands the implementation costs and time frame for introducing changes to the way losses are allocated. We recommend no implementation date is set without consulting first with industry and ELEXON to understand when system and process changes can be completed in light of a clearly defined solution.

¹ <https://www.elexon.co.uk/wp-content/uploads/2015/08/31-Jul-2015-CMA-response-findings-and-remedies.pdf>

² <https://www.elexon.co.uk/wp-content/uploads/2015/09/ELEXONs-comments-on-CMAs-assessment-methodology-for-losses-remedy.pdf>

³ <https://www.elexon.co.uk/mod-proposal/p229-introduction-of-a-seasonal-zonal-transmission-losses-scheme/>

We would be happy to discuss our comments and will continue to support the CMA. If you would like to discuss any areas of our response please contact Adam Richardson, Senior Market Advisor, on 020 7380 4117 or adam.richardson@elexon.co.uk.

Yours sincerely,

David Jones
Director of Strategy and Delivery, ELEXON

Appendix A

Observations on NERA's proposed cost-benefit analysis methodology and scenarios

Post P229 Interconnector User exemption from losses charges

We note NERA's statement that its modelling procedure is 'intended to mimic, albeit approximately, the types of zonal loss factors prescribed by BSC Modification Proposal P229, under which locational variation in generators' and consumers' transmission loss factors would be set based on seasonal averages' (p.9 of its methodology).

Since P229, BSC Modification P278 'Treatment of Transmission Losses for Interconnector Users'⁴ has exempted all Interconnector User Balancing Mechanism (BM) Units from charges for both fixed and variable transmission losses. As noted in our response to the CMA's provisional findings, P278 was required to comply with European Regulation no. 714/2009⁵. We are unclear whether NERA has incorporated this post-P229 change into its proposed methodology.

Modelling of demand & demand data

The solution proposed by P229 (and other BSC Modifications) sought to apply a locational allocation of variable transmission losses to both generators and Suppliers, as reflected in the above statement from NERA. We note that NERA's modelling methodology also retains the current overall 45:55 split between the proportion of total transmission losses allocated to generation and demand (p.9), which is consistent with previous BSC Modifications. The methodology contains a detailed description of how NERA proposes to model the effect of zonal loss factors on generation. However, it gives less information on how it proposes to model their effect on demand. ELEXON holds a variety of different types of BSC demand data and, subject to the timescales for the cost-benefit analysis and the BSC Panel's approval, we would be happy to provide this to the CMA if it would help NERA's modelling.

Number of Zones

If implemented, the P229 solution (and that of other related BSC Modifications) would have calculated different locational loss factors for different 'TLF Zones'. These zones would, in total, have covered the entire GB Transmission System. We note that NERA's DTIM model uses 16 zones. Previous BSC Modification Workgroups chose to use 14 zones, based on the BSC's existing 14 regional Grid Supply Point (GSP) Groups. This was because these represent the existing level at which the BSC systems allocate customers' metered energy volumes to Suppliers for financial Settlement, and at which they apply charges to Suppliers for transmission losses. Use of the existing GSP Groups therefore appears sensible and, while it would not necessarily be impossible to disaggregate demand to a lower (more geographically specific) level of granularity, doing so would result in additional implementation costs and lead times to those identified for P229.

The BSC Modification Workgroups noted that the same practical consideration does not apply to generation, and that it is therefore possible to allocate losses locationally using different zones for generation and demand. However, the majority Workgroup preference was to use the same zones for both. The reason for this was to avoid any possible distortions in the economic signals provided by the zonal loss factors.

⁴ <https://www.elexon.co.uk/mod-proposal/p278-treatment-of-transmission-losses-for-interconnector-users/>

⁵ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>

The zonal loss factors calculated by NERA's 16-zone model, and the resulting signals they provide to generation and demand within the modelling, will therefore be different to if they were based on the 14 GSP Groups. We cannot comment on whether this is material to the results of the cost-benefit analysis. It may make it harder for Suppliers to assess the implications of the cost-benefit analysis for their transmission losses charges.

Seasonal application

The P229 solution calculated different zonal loss factors for each BSC Season. The BSC defines these BSC Seasons as specific groups of months within the BSC Year, with the BSC Year itself starting on 1 April. We are unclear from NERA's proposed methodology whether it intends to use the same basis for its seasonal loss factors and cannot comment on whether any difference is material to the cost-benefit analysis results.

Considerations for possible consequential BSC Modification

Before assessing the costs and benefits of a zonal losses scheme, the previous BSC Modification Workgroups commissioned a load-flow modelling exercise to establish the most appropriate calculation methodology for the zonal loss factors. For example, previous Workgroups used this to determine the appropriate temporal averaging (by comparing seasonal values with other higher- and lower-granularity values) and how to map Offshore generators to zones.

If Remedy 1 is progressed, and if this requires changes to the BSC, we would encourage the CMA to consider the following:

- If the zonal losses solution used for the purposes of the cost-benefit analysis does not easily fit with existing BSC structures, and if the CMA mandates this specific solution for implementation, this could result in additional implementation costs and lead times.
- Mandating a specific zonal loss calculation could also constrain a subsequent BSC Modification Workgroup's ability to re-assess the most cost-reflective temporal and zonal averaging for the loss factors.
- Leaving a subsequent BSC Modification Workgroup with flexibility to assess the most appropriate detailed calculation could result in a solution that differs from that used for the cost-benefit analysis.