Final Modification Report

P396 'Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units'

This Modification proposes to exclude Interconnector Balancing Mechanism (BM) Units from the Main Funding Share and Supplier Volume Allocation (SVA) (Production) Funding Share Balancing and Settlement Code (BSC) Charges, in order to better facilitate the EU Third Package.

The BSC Panel recommends **rejection** of P396

This Modification is expected to impact:

- Interconnector Users
- Interconnector Error Administrators
- Generators
- Suppliers
- Non-Physical Traders
- ELEXON
- Any other BSC Party with a non-zero Funding Share

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Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

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Contents

1	Summary	3
2	Why Change?	5
3	Solution	11
4	Impacts & Costs	13
5	Implementation	16
6	Panel's Initial Discussions	17
7	Report Phase Consultation Responses	20
8	Panel's Final Discussions	23
9	Recommendations	24
Appendix 1: Glossary & References		25
Appendix 2: BSC Charges Diagram and Worked Example		27
Appendix 3: Allocation of BM Unit Metered Volumes to Interconnector BM Units		28

About This Document

This is the P396 Final Modification Report, which ELEXON has submitted to the Authority on behalf of the BSC Panel. It includes the Panel's full views and the responses to the Panel's Report Phase Consultation. The Authority will consider this report and decide whether to approve or reject P396.

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.
- Attachment A contains the draft-redlined changes to the BSC for P396.
- Attachment B contains the P361 Final Modification Report.
- Attachment C contains the full responses received to the Panel's Report Phase Consultation.
- Attachment D contains the proposal form

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1 Summary

Issue

Interconnector Users in Great Britain (GB) are liable for the BSC Costs equivalent to the market share of the export and import registered on their Interconnector BM Units. The application of BSC Charges to cross-border flows creates a differential between those trades that facilitate competition within a national market and pan European trades that facilitate competition across a single European electricity market. Efficient trading between GB and other Member States is therefore compromised.

In the BSC Interconnector flows are treated as production or consumption for the purposes of calculating BSC Charges. This does not clearly best facilitate EU Third Package (EC 714/2009) Article 2 which defines an Interconnector as "a transmission line which crosses or spans a border between two Member States and connects transmission systems of Member States".

Solution

P396 proposes to amend the BSC in order to remove Interconnector BM Units Credited Energy Volumes from the BSC Charge calculations (Main funding Share and Supplier Volume Allocation (SVA) (Production) Funding Share. Upon implementation, the solution will calculate Parties Net Main Costs and Production-Charging SVA Costs using the revised Main Funding Share and SVA (Production) Funding Share respectively. The re-calculated charges will be billed as one lump sum, with payment due within normal BSC timescales following receipt of invoice.

The solution proposed under this P396 mirrors the solution previously developed under P361, except for the reconciliation date (the date at which the charges are backdated from the Implementation Date). The reconciliation date has been amended as part of this Modification to the later of:

- The day following the Authority decision is issued to the National Electricity Transmission System Operator (NETSO); or
- The first day of the BSC Financial Year the Modification is implemented.

Impacts & Costs

We expect P396 to impact:

- Interconnector Users;
- Interconnector Error Administrators;
- Generators;
- Suppliers;
- Non-Physical Traders; and
- Any other BSC Party with a non-zero Funding Share.

BSC Charges will be increased for these Parties, as the BSC Charges paid by BSC Parties with Interconnector BM Units will be smeared across all other BSC Parties.

The central implementation costs for P396 will be approximately £85k.

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Implementation

The proposed Implementation Date for P396 is:

- 5 November 2020 as part of the November 2020 BSC Release if an Authority decision is received by 1 April 2020; or
- 25 February 2021 as part of the February 2021 Release if an Authority decision is not received by 1 April 2020 but is received by 1 July 2020.

Panel's Recommendation

The **majority** of Panel members believe P396 does not better facilitate Applicable BSC Objective (c). The **majority** of Panel members agreed that P396 does better facilitate Applicable BSC Objective (e). However, Panel members by **majority** believed the detrimental impact against Objective (c) to be greater than the positive impact against Objective (e) and therefore recommended **rejection** of P396.

Further information on the Panel's recommendation and its views on the Applicable BSC Objectives can be found in section 8 of this document.

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2 Why Change?

Background

Modification P361

P396 has been raised to progress the solution previously developed under Modification P361 'Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units'. Modification P361 was raised on 31 October 2017, assessed by a Workgroup (WG) who developed the solution in conjunction with the Proposer. The P361 Draft Modification Report was presented to the BSC Panel on 12 July 2018. The Panel recommended rejection of both the P361 Proposed and Alternative Modifications as they did not believe P361 better facilitated Applicable BSC Objectives (c) and (e) compared to the current baseline. Further detail of the Panel's recommendation can be found in the P361 Final Modification Report, published on the P361 webpage.

P361 was submitted to the Authority for decision on 13 July 2018.

On 22 October 2019, the Authority confirmed agreement with ELEXON's assessment that P361 has 'timed out'. The Authority was not in a position to make a determination on P361 by 1 November 2018 (the latest decision date, in order that P361 could be implemented by the Panel approved Implementation Date of 28 February 2019).

Therefore, P361 was closed as the Authority could not make a decision to approve or reject the modification. The Authority assessed the merits of P361 and based on this initial assessment, it was minded-to approve the P361 Alternative Modification.

The Authority and ELEXON engaged with Nord Pool AS (P361 Proposer), who is raising this Modification to progress the solution developed and assessed by the P361 Workgroup. If approved the Modification will be effective in the 2020/21 financial year.

The Workgroup discussions and background to P361 can be found in the P361 Final Modification Report as published on the P361 Modification Webpage.

BSC Panel engagement

At its meeting on 14 November 2019, the BSC Panel noted that P361 had 'timed out'. ELEXON outlined that a solution closely mirroring the P361 Alternative solution would be progressed, in order the new Modification could be progressed directly to the Report Phase, without the need to convene a workgroup. This is in light of the Authority's view that it was minded to approve the P361 Alternative Modification. The difference to the P361 alternative Modification being an extra clause in the legal text that would prevent reconciliation of charges across financial years, as this is not permissible under the BSC as outlined in the P361 Reports and this paper.

As part of the update, a BSC Panel member questioned whether there is scope for considering Ofgem's Target Charging Review (TCR) Significant Code Review (SCR) proposals in the context of a new Modification to implement the P361 solution. The Panel member cited a significant increase in interconnector capacity that will redistribute costs significantly across BSC Parties.

ELEXON subsequently investigated the Panel members comments raised and concluded that P361 was originally raised to better facilitate EU legislation. In particular that Interconnector Users should not be charged BSC Charges on the basis that this would distort the efficient operation of the EU Internal Market. P361 sought, and P396 seeks to

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change who is charged. In comparison, the TCR seeks to introduce a new way of calculating and levying a residual network charge and therefore, the TCR is primarily interested in how a charge is determined rather than who is charged.

Whilst we recognise there may be some potential benefits to considering whether we can learn from the TCR proposals in the wider context of industry code cost recovery, we believe this is outside the scope of P361. If the industry wishes to further discuss BSC cost recovery mechanisms, it could consider raising appropriate BSC Changes to that extent. We engaged directly with the Panel member to discuss our findings ex-committee and the Panel member agreed with our assessment.

ELEXON also engaged with the Authority on the TCR query raised by the Panel member. The Authority did not raise any concern of the TCR impacting the solution being progressed under this P396. Similarly, in the TCR decision, the Authority is to consider who should be liable for balancing services charges and how the charge should be recovered using the TCR principles.

What are BSC Charges?

All costs, expenses and other outgoings of BSCCo are referred to as **BSC Costs**. These costs are recovered from BSC Parties. BSC Parties pay a proportion of the BSC Costs every month, known as **BSC Charges**. Section D of the BSC details the BSC Charges and their recovery. Appendix 2 contains a diagram to illustrate the BSC funding arrangements and worked examples.

BSC Costs are recovered under two different approaches:-

1. Recover costs on a tariff-style approach, where charges are fixed (subject to periodic reviews) to a per unit price. These charges are known as the Total Specified BSC Charges.

2. Recover costs based on a Parties market share.

Tariff-Style Approach (Specified Charges)

Total Specified Charges are made up of:

- Main Specified Charges: Parties pay a monthly fixed amount for various services on a tariff style basis. Examples include a monthly BSC subscription charge and a monthly Balancing Mechanism (BM) Unit charge;

- Supplier Volume Allocation (SVA) Specified Charges: Payable only by Suppliers for each of their SVA Metering Systems (account for half of SVA Costs, which cover the operational aspects of the SVA system. Generators pay the other half via the Production Charging SVA Costs – see below); and

- Further Charges: Any ad-hoc additional services required by any provision of the BSC or a Code Subsidiary Document (CSD), with prior approval from the Panel.

Market Share Approach (Funding Shares)

Funding Shares are calculated using Parties:

1) energy volumes (MWh)

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A Party's BSC Charges are calculated using its Main Funding Share and its SVA (Production) Funding Share. Both are calculated using a Party's energy volumes.

Generators pay the Production Charging SVA Costs based on the SVA (Production) Funding Share, which is calculated using the total Credited Energy Volumes for Production BM Units. These costs account for the other half of the SVA Costs. Suppliers pay the other half of SVA Costs via the SVA Specified Charges.

All other BSC Costs are recovered from Net Main Costs using a Party's Main Funding Share. A Party's Main Funding Share is equivalent to its market share, calculated for each BSC Party using their generation or supply in the last month.

2) proportion of their BSC Charges (£)

A **General Funding Share** is calculated using a Party's share of the total BSC Charges. It calculates a percentage share of the total Net Main Costs, Production Charging SVA Costs, and Specified Charges. The General Funding Share is used in the payment Default process and in calculating an Annual Funding Share. The Annual Funding Share is an average of the General Funding Share, on a rolling 12 month basis. This is used to calculate the Voting Share for Trading Parties.

Occasionally a Party defaults on its payments, and leaves its share unpaid. This 'bad debt' or **Default Costs** is reallocated among the other Parties using a **Default Funding Share**. A Default Funding Share is calculated as a proportion of the total defaulted amount for non-defaulting Parties.

Each month a Party must pay its:

- Total Specified Charges;
- Monthly Net Main Costs via the Main Funding Share; and
- Monthly Production Charging SVA Costs via the SVA (Production) Funding Share.

For the financial year 2016/2017, BSC Costs were recovered:

- 79% via Funding Shares;
- 21% via Specified Charges.

What are Interconnected System Operators?

An Interconnected System Operator (ISO) is responsible for the Exports and Imports at an Interconnector Boundary Point, the point at which an Interconnector is connected to a either a Transmission System or a Distribution System. The flows of energy imported or exported by an Interconnector are recorded by the relevant Metering Systems. These volumes are notified to the relevant Interconnector Administrator by the ISO.

Determination of Interconnector Metered Volumes

The BSC[1] defines an Interconnector as the transmission apparatus used to transfer electricity to or from the Great Britain (GB) Total System[2], to or from an external electricity network outside of GB. BSC Parties wishing to trade energy that is transferred over the Interconnector must register themselves as an Interconnector User. Interconnector Users are always allocated a pair of Interconnector BM Units:

- A Production BM Unit for electricity entering the GB Total System; and
- A Consumption BM Unit for electricity being taken off the GB Total System.

[1] Section Annex X-1
[2] The Total System is made up of the Transmission and Distribution Systems that are covered by the BSC

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For each Settlement Period, a Metered Volume is only ever allocated to either the Production or the Consumption Interconnector BM Unit, as any imports and export are netted and the difference applied to the relevant BM Unit.

Appendix 3 illustrates the allocation of BM Unit Metered Volumes to Interconnector BM Units.

Interconnector Administrators

Each Interconnector will have an Interconnector Administrator and an Interconnector Error Administrator. Each Interconnector User provides the Interconnector Administrator with a copy of its Physical Notification for each Settlement Period by Gate Closure.

The Interconnector Administrator will allocate Metered Volumes to each Interconnector User's BM Unit based on the notifications from the Interconnector Users, having regard for the total Active Energy Flow over the Interconnector, as provided by the Interconnected System Operator.

This means that the Metered Volumes are 'deemed volumes' and may not necessarily match the volume provided by the Interconnector. For example, the volumes may be changed to accommodate operational issues such as a failure or a reduction in capacity of the Interconnector.

What are Physical Notifications?

Physical Notifications are a notification made by a Lead Party for a BM Unit and Settlement Period to the Transmission Company of the expected level of Export or Import for that BM Unit and Settlement Period.

Interconnector Error Administrators

The Interconnector Administrator will also aggregate all deemed Metered Volumes for a given Settlement Period to give a total volume. The Interconnector Administrator will then compare the total volume of deemed volumes with the actual Metered Volume (the physical flows over the Interconnector), as metered at the point the Interconnector connects to the GB Total System. Any difference between the two will be allocated to the Interconnector Error Administrator.

As with all other Trading Parties, the difference between an Interconnector User's (and Interconnector Error Administrators) Imports or Exports (adjusted for Transmission Losses) and their total Notified Energy Contract Volume represents the Energy Imbalance Volumes. These volumes are multiplied by the System Price to calculate a Parties Trading Charges.

What BSC Costs do Interconnectors pay?

BSC Parties with Interconnector BM Units currently pay all of the BSC Charges detailed above. This includes Specified Costs for things like the number of BM Units, the number of Central Volume Allocation (CVA) Metering Systems, BSC Subscription and charges based on Funding Shares. Typically the biggest charges calculated using a Funding Share will be the Net Main Costs (72% of total BSC Costs for 2016/2017 for all BSC Parties).

EU Legislation

The European Union (EU) Third Package came into force on 3 September 2009, which supersedes national legislation in member states, including GB. Under the EU Third Package regulation on conditions for access to the network for cross-border exchanges in

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electricity (EC 714/2009), Interconnectors are treated as a part of the Transmission System.

The EU Third Package also created a regulatory framework to support the development and implementation of European-wide Energy Network Codes and guidelines, which form a legally binding set of common technical and commercial rules and obligations that govern access to and use of the European energy networks.

One of the Energy Network Codes, the Capacity Allocation and Congestion Management (CACM), came into force on 15 August 2015. The CACM governs the establishment of cross-border EU electricity markets in the day-ahead and intraday timeframes (known as single day ahead and intraday coupling), as well as methods for the calculation of interconnection capacity.

Amongst other things, CACM requires that nominated electricity market operators (NEMOs) are designated by the National Regulatory Authority (NRA) in each member state. Ofgem is the NRA in GB and has designated two NEMOs in GB, ECC European Commodity Clearing AG (which is a child company of EPEX SPOT SE) and Nord Spot Pool AS. From a BSC perspective NEMOs are classified as Interconnector Users.

Implicit and Explicit Trading

Interconnector owners offer capacity to Interconnector Users via implicit or explicit auctions in accordance with the CACM. Capacity is purchased for a particular direction on the Interconnector. Further, Interconnector Users can trade energy over an Interconnector through implicit and explicit auctions at day ahead or intraday timescales.

Explicit auctions allow participants to purchase the right to utilise capacity on the Interconnector from intraday to long term timescales. Auction participants submit bids in £ or € /MW/hour for the number of MW they want. Successful bidders pay the auction clearing price and have 'explicit' visibility with the capacity that they have purchased.

Implicit auctions enable available capacity to be indirectly purchased on the intraday markets and day ahead via power exchange auctions. NEMOs operate the power exchanges for cross-border trading. The capacity is made available within the spot price mechanism in the relevant power exchange, rather than to individual users (as in explicit auctions).

The implicit auction methodology is known as 'market coupling'. Successful bidders do not have visibility of who they have traded with or where the traded power originates/is delivered. The implicit trades will be notified by NEMOs to the Interconnector Administrator, who will allocate the volumes to the NEMOs Interconnector BM Units.

It should be noted that NEMOs have no control over the volumes allocated to their BM Units as it varies depending on the capacity available after explicit trading has occurred and the price differential between the interconnected markets. The volumes are an output of an algorithm that they run as a NEMO.

What is the issue?

For the purposes of calculating BSC Charges, Interconnector BM Units in GB are currently treated as either a Production BM Unit (generation) or Consumption BM Unit (demand), equivalent to being treated the same way as generators or Suppliers. The BSC Charges derived from Credited Energy Volumes are paid for by all BSC Parties having Production

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and Consumption BMUs with non-zero Metered Volumes, including Interconnector Users. Under the EU Third Package (Regulation 714/2009) they should be treated as part of the Transmission System and not as Production or Consumption.

The application of BSC Charges to cross-border flows creates a differential between:-

- those trades that facilitate competition within a national market; and
- pan European trades that facilitate competition across a single European electricity market.

Efficient trading between GB and other Member States is therefore compromised. This has the effect of reducing the number of occasions where potentially beneficial trades could have taken place and therefore conflicts with the EU Third Package objectives.

Furthermore, the flow of energy across these interconnectors is determined by a central algorithm, which takes into account the local areas order book and the available interconnector capacity between two bidding areas. The results of this calculation will determine the area price and direction of flow across the Interconnector.

The BSC Costs of the GB Interconnectors cannot be included as a factor in the calculations. This means that in market coupling optimisations the shipping paths along Interconnectors connected to GB have add on costs which other European Interconnectors do not normally have.

This is not in line with the goals of the EU Third Package that aims to deliver a well-functioning internal market in electricity e.g. more cross-border trade, so as to achieve efficiency gains, competitive prices, and higher standards of service, and to contribute to security of supply and sustainability.

Previous similar BSC Modifications

Two previous BSC Modifications have been raised to address a similar issue raised previously in P361 and under this P396.

P278 'Treatment of Transmission Losses for Interconnector Users' was raised by National Grid to always apply a fixed Transmission Loss Multiplier of 1 to Interconnector BM Units, so that the BSC does not adjust Interconnector BM Unit's Metered Volumes for GB transmission losses. The Proposer argued that, the BSC's allocation of GB transmission losses to Interconnector Users could be seen as charging for those GB transmission losses which occur as a result of hosting cross-border flows and therefore in conflict with the EU Third Package. Ofgem approved P278 on 1 May 2012, and was implemented on 29 November 2012.

P285 'Revised treatment of RCRC for Interconnector BM Units' was raised by National Grid to exclude Interconnector BM Units from Residual Cashflow Reallocation Cashflow (RCRC) charges / payments in consequence to Connection Use of System Code (CUSC) Modification Proposal (CMP) 202. CMP202 removed Balancing Service Use of System (BSUoS) charges from Interconnector BM Units as BSUoS charges were perceived as a barrier to cross-border trades across Interconnectors in conflict with the EU Third Package. The P285 Proposer argued there was an anomalous situation where Parties were liable for RCRC charges / payments from the Settlement imbalance process but were not liable for BSUoS charges / payments that include the cost to the System Operator of resolving those imbalances. Ofgem approved P285 on 23 January 2013 and was implemented on 7 June 2013.

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3 Solution

Solution

This proposal aims to address the issues by removing the shares of BSC Costs to be covered by Parties of Interconnector BM Units and, in doing so, better facilitate GB arrangements with EU objectives and facilitates greater use of Interconnectors, and encourage further cross-border trading.

P396 proposes to exclude Interconnector BM Units Credited Energy Volumes from:

- The Main Funding Share; and
- The SVA (Production) Funding Share.

The solution requires a change to the SAA-I025 'SAA BSC Section D Charging Data', which is used as an input file into the Funding Share System (FSS), used to calculate BSC Charges. The file, which is produced by the Settlement Administration Agent (SAA), will be amended to exclude Interconnector Credited Energy Volumes.

P396 does not amend the General Funding Share, Default Funding Share or Annual Funding Share, as any amendments to the Main funding Share or SVA (Production) Funding Share will flow into these other types of Funding Share.

Whilst the original P361 solution was due to be effective in the 2018/19 financial year, this new Modification seeks to be effective in the 2020/21 financial year.

The solution proposed under this P396 mirrors the solution previously developed under P361, except for the reconciliation date (the date at which the charges are backdated from the Implementation Date). The reconciliation date has been amended as part of this Modification to the later of:

- The day following the Authority decision is issued to the National Electricity Transmission System Operator (NETSO); or
- The first day of the BSC Financial Year the Modification is implemented.

This is to ensure order P396 delivers the intent of the P361 solution within a reasonable timeframe in the financial year of which P396 is implemented.

Whilst the original P361 solution was due to be effective in the 2018/19 financial year, P396 seeks to be effective in the 2020/21 financial year. The Authority noted as part of its P361 assessment it was minded to approve the P361 Alternative Modification. The P361 Alternative Modification involved a reconciliation from the Implementation Date back to the day after the Authority's decision.

ELEXON is unable to reconcile charges over different financial years as its funding model prevents it from retaining funds across financial years and its accounts need to reflect this. Due to the proposed timescales in which this P396 shall progress, the Authority should receive the Final Modification Report for decision week commencing January 2020, meaning an Authority decision is expected in the financial year before the financial year in which P396 shall be implemented. Consequently, the P396 solution contains provisions that ensure that the Implementation Date and the reconciliation date must fall in the same financial year.

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In order to be as consistent as possible to P361, the P396 reconciliation date shall be the later of the day after the Authority decision (to mirror P361 Alternative Implementation Date), or 1 April 2020.

Applicable BSC Objectives (Proposer Views)

The Proposer believes P396 would better facilitate **Applicable BSC Objectives (c) and (e)** compared with the existing baseline for the reasons set out below:

Proposer views against Objectives (c)

Removing Interconnector BM Units from the BSC Charging methodologies will promote competition by lowering the barrier to Interconnector Users to enter the UK market and facilitating cross border trade as no unforeseen and volatile BSC Costs for shipping flows is needed to be managed and accounted for.

Proposer views against Objectives (e)

The Modification Proposal has a positive impact on the objective (e) as the Interconnector flows would neither be classed as production nor consumption but as part of the overall transmission infrastructure facilitating the wider market and hence better aligns to the goals of the EU Third Package regulations.

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

(g) Compliance with the Transmission Losses Principle

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4 Impacts & Costs

P396 will directly impact **BSC Parties with a non-zero Funding Share**. Parties currently paying a Main Funding Share and/or SVA (Production) Funding Share related to Interconnector BM Units will pay less with regard to these Units, while all Parties currently paying a Main Funding Share and/or SVA (Production) Funding Share will pay more in respect of non-Interconnector BM Units. A full, detailed description of the impacts of P361 can be found in Attachment C of this report.

Estimated central implementation costs of P396

The central system implementation costs will be approximately **£80k**. ELEXON's implementation effort totals approximately 21 days, with associated costs of approximately **£5k**. Total central implementation costs will therefore be approximately **£85k**.

Indicative industry costs of P396

No respondents to the Report Phase Consultation identified would incur implementation costs.

Respondents noted that if implemented, P396 would impact their organisation with one respondent noting they would face an increase in BSC Charges.

Impact on BSC Parties and Party Agents	
Party/Party Agent	Potential Impact
BSC Parties with Interconnector BM Units	P396 proposes to reduce BSC Charges for these BSC Parties. No system or process impacts are anticipated.
Interconnector Users	BSC Charges will be increased for these Parties, as the BSC Charges paid by BSC Parties with Interconnector BM Units will be smeared across all other BSC Parties. No system or process impacts are anticipated.
Interconnector Error Administrators	
Generators	
Suppliers	
Non-Physical Traders	
Any other BSC Party with a non-zero Funding Share	

Impact on the National Electricity Transmission System Operator (NETSO)
The NETSO analysis conducted under P361 identified that there would be no costs associated with the implementation of P361 and no changes to Core Industry Documents, System Operator Transmission Owner Code are anticipated.

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Impact on BSCCo	
Area of ELEXON	Potential Impact
Finance	Changes will be required to the BSC billing processes and systems. ELEXON will need to update its guidance document on Funding Shares and any BSC Simple Guides for impacted BSC Section D. ELEXON will need to implement this Modification Proposal within its BAU operations.
Market Operations	Minor update to the Funding Share Guidance Note.
IT	Deploy changes to FSS and support UAT/OAT

Impact on BSC Systems and processes	
BSC System/Process	Potential Impact
Settlement Administration Agent (SAA)	Changes will be required to this system; the SAA-I025 file will be modified to exclude Interconnector volumes.
Funding Share System (FSS)	Changes will be required to this system.

Impact on BSC Agent/service provider contractual arrangements	
BSC Agent/service provider contract	Potential Impact
CGI	Implementing changes to FSS

Impact on Code	
Code Section	Potential Impact
Section D	Changes to the BSC Charges calculations will be required.

Impact on Code Subsidiary Documents	
CSD	Potential Impact
SAA User Requirements Specification (URS)	Changes to 'F008: Calculate Credited Energy Volumes to reflect changes to BSC'

Impact on Core Industry Documents and other documents	
Document	Potential Impact
Ancillary Services Agreements	None anticipated.

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Impact on Core Industry Documents and other documents	
Document	Potential Impact
Connection and Use of System Code	
Data Transfer Services Agreement	
Distribution Code	
Distribution Connection and Use of System Agreement	
Grid Code	
Master Registration Agreement	
Supplemental Agreements	
System Operator-Transmission Owner Code	
Transmission Licence	
Use of Interconnector Agreement	

Impact on a Significant Code Review (SCR) or other significant industry change projects
We do not believe this Modification will impact any open and ongoing SCRs, therefore we request P396 be exempt from the SCR process. We requested SCR exemption from the authority on 10 December 2019. On 12 December 2019, Ofgem confirmed that Modification P396 is currently outside the scope of open SCRs and is SCR-exempt.

Impact on Consumers
The costs arising from exempting Interconnector BM Units from given BSC Charges will have to be picked up amongst other BSC Parties and could therefore be indirectly passed to customers.

Impact on the Environment
No direct impact identified.

Further impacts

The amendment of the Main Funding Share and the SVA (Production) Funding Shares for Interconnector BM Units will have a subsequent effect on both the Voting Share and any other funds, the amounts of which are determined by a Party's overall Funding Share.

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5 Implementation

Approved Implementation Date

The BSC Panel approved an Implementation Date of:

- 5 November 2020 as part of the November 2020 BSC Release subject to an Authority decision being received by 1 April 2020; or
- 25 February 2021 as part of the February 2021 Release if an Authority decision is not received by 1 April 2020 but is received by 1 July 2020.

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6 Panel's Initial Discussions

The Initial Written Assessment for this Modification was presented to the BSC Panel at its meeting on 12 December 2019 (Panel 297/04). The Panel unanimously agreed with the proposed Implementation Date and legal text and agreed by majority that P396 should be **rejected.**

The Panel unanimously agreed that P396 **should not be treated** as a **Self-Governance** Modification.

Applicable BSC Objectives - Panel's initial views

Applicable BSC Objective (c)

The **majority** of Panel members believe P396 does not better facilitate Applicable BSC Objective (c) as they noted a view that P396 is detrimental to competition. A Panel member noted the removal of interconnector charges is becoming a growing issue for competition both in respect of the Capacity Market (where interconnectors can compete with potentially lower costs), and between interconnectors and UK generators. The Panel member noted that UK Generators cannot compete as they are being treated differently and are subject to all of these charges which offshore generators are not. The Panel member also suggested the arrangements being proposed are not compatible with increasing security of supply

A **minority** of Panel members agree that P396 better facilitates Applicable BSC Objective (c) as removing Interconnector BM Units from the BSC Charging methodologies will promote competition for interconnectors.

Applicable BSC Objective (e)

The **majority** of Panel members agree that the Modification better facilitates Applicable objective BSC (e) as removing charges from Interconnector BM Units will better align with the EU Third Package. This aligns with the legal advice provided under P361.

Irrespective of the legal advice provided as part of prior Modification P361, a **minority** of the Panel abstained from by providing their views on Applicable objective BSC (e) as they felt they did not have enough legal certainty on the regulation and EU legislation.

Should P396 be approved?

In considering whether P396 should be approved, the Panel members considered the arguments against Applicable BSC Objectives (c) and (e). Panel members initially determined that the detrimental impact against Applicable BSC Objective (c) outweighed the positive impacts against Objective (e) and hence initially determined by majority, that P396 should be **rejected**. Panel members noted that interconnector charges are a growing issue for competition in terms of Interconnectors and UK generators. Panel members acknowledged that P396 would better facilitate EU legislation, but put forward a view that the EU legislation was incompatible with the GB market position. For instance, UK Generators may not be able to compete as they would be treated differently to interconnectors.

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

(g) Compliance with the Transmission Losses Principle

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Panel views on Self-Governance

The Panel initially agreed that P396 **should not** be progressed as Self-Governance in line with the rationale outlined in the P396 Initial Written Assessment, as follows:

The P361 Workgroup unanimously believed the solution does not meet the Self-Governance Criteria on the basis of criteria (a)i, (a)ii, a)v and (b), with their rationale as follows:

- (a)i: The Workgroup believed that due to the fact that if these charges were exempt from Interconnector BM Units and the associated costs spread amongst BSC Parties; these costs could potentially be reflected back onto the consumer.
- (a)ii: The Proposer believed the Modification will promote competition by lowering the barrier to Interconnector Users to enter the UK market. Conversely, some members felt that there was no clear impact on competition, although there may be increased competition between NEMOs.
- (a)v: The Modification is proposing a change to Section D, which sets out how the BSC administers its charging arrangements, this could be deemed as an alteration of the Code's governance procedures.
- (b): The Modification is potentially discriminating against other classes of Parties e.g. Generators and Suppliers, as charges excluded from Interconnector BM Units would be picked up by these parties.

In line with the P361 Modification, the P396 solution should be submitted to the Authority for decision.

Other Panel considerations

The Panel suggested Ofgem could consider a holistic review of Interconnector flows. Another member asked whether there is a possibility to change any other transmission licence. Ofgem advised that they would consider all the Panel's comments regarding P396.

Another Panel member asked whether in line with the BSC Governance process, the Panel could refer P396 to the Assessment Phase after the Report Phase Consultation. ELEXON confirmed that in accordance with Section F of the BSC, the Panel cannot refer a Modification to the Assessment Procedure after the Report Phase Consultation. P396 will be issued to the Authority for decision.

The Proposer acknowledged the Panel comments noting that they welcome a review of charges being applied both nationally and internationally. This Modification highlights an issue which has a material impact on any parties trading in the wholesale market where they are trading any energy which is flowing across boarders and this change is intended to address that. The Modification seeks to align with the EU Third Package and should be implemented to minimise the impact on Interconnector Users, particularly NEMOs.

Consultation Period

The Panel requested the Consultation period for P396 be at least two full working weeks in duration, given potentially limited availability for market participants to adequately consider P396 over the Christmas/New Year period. To achieve this for the benefit of market participants, the Draft Modification Report was submitted as a late paper to the

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January 2020 BSC Panel meeting. The P396 Report Phase consultation period concluded on 10 January 2020, after the usual paper deadline of 9 January 2020.

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7 Report Phase Consultation Responses

The Report Phase consultation was issued on 17 December 2019 with responses due by 10 January 2020. This section summarises the responses to the Panel's Report Phase Consultation on its initial recommendations. You can find the full responses in Attachment C.

Summary of P397 Report Phase Consultation Responses				
Question	Yes	No	Neutral/ No Comment	Other
Do you agree with the Panel's initial majority view that P396 does not better facilitate Applicable BSC Objective (c)?	**2**	**1**	**0**	**0**
Do you agree with the Panel's initial majority view that P396 does better facilitate Applicable BSC Objective (e)?	**2**	**0**	**1**	**0**
Do you agree with the Panel's initial majority recommendation that P396 should be rejected?	**2**	**1**	**0**	**0**
Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P396?	**2**	**0**	**1**	**0**
Will P396 impact your organisation?	**3**	**0**	**0**	**0**
Will your organisation incur any costs in implementing P396?	**0**	**3**	**0**	**0**
Do you agree with the Panel's recommended Implementation Date?	**2**	**0**	**1**	**0**
Do you agree with the Panel's initial view that P396 should not be treated as a Self-Governance Modification?	**2**	**0**	**1**	**0**
Do you have any further comments on P396?	**0**	**3**	**-**	**-**

We received four responses to the Panel's Report Phase Consultation, three via the response form, and a note which did not provide responses to the specific consultation questions. Hence we have summarised three responses in the above table.

The four respondents represented two Suppliers, one Generator and two Interconnectors.

The note was received from National Grid Interconnectors Limited is outlined in full below:

> 'In response to the P396 'Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units' modification, the view of National Grid Interconnectors Limited is that of supporting the modification on the basis that it facilitates the objectives of the BSC (in particular objective c and objective e), and also on the understanding that it replaces P361 Alternative Modification, which Ofgem were minded to approve prior to the modification timing out with regard to the proposed implementation dates'.

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Views on BSC Objectives

The majority of respondents agreed with the Panel's view that the Proposed Modification does not better facilitate Applicable BSC Objective (c).

BSC Objective (c)

A respondent noted that they would welcome an analysis on how equivalent charges are levied across the EU and by whom they are paid as currently there is insufficient analysis illustrating any distortion caused by these BSC charges.

ELEXON notes that the EU does not have comparable models to the UK. They recover similar costs via the TSO as part of the system balancing operation costs. ELEXON is not aware of any data that would facilitate any analysis for this work, it is therefore not possible to carry out an analysis. P396 seeks to address compliance with EU Law on the premise that BSC Charges can be regarded as transmission charges that Interconnector Users should not be charged on the basis that this would distort the efficient operation of the EU Internal Market.

One respondent disagreed with the Panel's view noting that the Proposed Modification better facilitates Applicable BSC Objective (c) as it promotes competition by lowering the barrier to Interconnector Users to enter the UK market and facilitating cross border trade as no unforeseen and volatile BSC Costs for shipping flows is needed to be managed and accounted for.

BSC Objective (e)

The majority of respondents agreed with the Panel's majority view that P396 does better facilitate Applicable BSC Objective (e).

Views on the Panel's recommendation to reject P396

The majority of respondents agreed with the Panel's majority view that P396 should be rejected as excluding Interconnector (BM) Units from the Main Funding Share and Supplier Volume Allocation will have a negative impact on competition.

One responded disagreed with the Panel's recommendation to reject P396 noting that removing BSC charges from interconnector users would facilitate compliance with European legislation in line with objective (e). In addition, removing BSC charges for interconnector users would reduce the cost faced by market parties to trade across borders and therefore removes a potential obstacle to cross-border trade.

The respondent believes the benefits of objective (e) outweigh the drawbacks of objective (c) as P396 would promote cross-border trade and competition in generation and supply of electricity.

Views on redlined changes to the BSC

The majority of respondents agreed that the proposed redlined changes deliver the intent of P396, whilst one did not provide a comment.

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Views on impacts to respondent's organisations

Two respondents noted that the Proposed Modification would have an impact on their organisation with one respondent noting they would face an increase in BSC Charges required under BSC arrangements.

Views on implementation costs incurred by respondent's organisations

All respondents noted that they would not incur implementation costs should P396 be approved.

Views on the Panel's recommended Implementation Date

All respondents agree with the Panel's recommended Implementation Date.

Views on Self-Governance

The majority of respondents agreed with the Panel's view that P396 should not be treated as a Self-Governance Modification. One respondent did not provide a view on whether P396 should be progressed as a Self – Governance Modification.

Further comments

There were no further comments provided, except from the written note provided as outlined above.

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8 Panel's Final Discussions

The Panel considered the Draft Modification Report at its meeting on 16 January 2020. (298/06).

On a respondent's suggestion for an analysis of similar charges across the EU, the Panel noted ELEXON's response that it is not possible to carry out an analysis of equivalent Settlement charges across the EU.

A Panel member advised that on 23 December 2019, The European Union Agency for the Cooperation of Energy Regulators (ACER) released a report reviewing the status of methodologies for electricity transmission tariffs in the European Union Member States. The report which contributes towards transparency and comparability in tariff-setting does not mention Settlement charges. Therefore it is impossible to compare the UK with the rest of Europe. Additionally, the variety of tariff structures including the different perimeters of the transmission tariff, makes it difficult to compare transmission tariffs in Europe.

Following its last meeting where it considered the Initial Written Assessment, the Panel further considered the perspectives against Applicable BSC Objectives (c) and (e). The Panel reaffirmed its majority position that in its view, the detrimental impacts on BSC Objective (c) due to competition, outweigh the positive benefits against BSC Objective (e) regarding alignment to EU legislation. Therefore, the Panel my majority recommends that P396 be rejected.

The Panel:

- **Unanimously agreed** that P396 **does not** better facilitate Applicable BSC Objective (c);
- **Unanimously agreed** that P396 **does** better facilitate Applicable BSC Objective (e);
- By **majority agreed** a recommendation that P396 should be **rejected;**
- **Unanimously approved** an Implementation Date of:
    - 5 November 2020 as part of the November 2020 BSC Release subject to an Authority decision being received by 1 April 2020; or
    - 25 February 2021 as part of the February 2021 Release if an Authority decision is not received by 1 April 2020 but is received by 1 July 2020;
- **Unanimously approved** the draft legal text; and
- **Unanimously approved** the P396 Modification Report.

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9 Recommendations

The Panel recommends to the Authority:

- That P396 should be **rejected**;
- An Implementation Date of:
  - 5 November 2020 as part of the November 2020 BSC Release subject to an Authority decision being received by 1 April 2020; or
  - 25 February 2021 as part of the February 2021 Release if an Authority decision is not received by 1 April 2020 but is received by 1 July 2020; and
- The BSC legal text for P396.

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Appendix 1: Glossary & References

Acronyms

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

Acronym	
Acronym	Definition
ACER	The European Union Agency for the Cooperation of Energy Regulators
BM	Balancing Mechanism
BSC	Balancing and Settlement Code
BSCP	Balancing and Settlement Code Procedures
BSUoS	Balancing Service Use of System
CACM	Capacity Allocation and Congestion Management
CMP	CUSC Modification Proposal
CSD	Code Subsidiary Documents
CUSC	Connection Use of System Code
CVA	Central Volume Allocation
ECC	European Commodity Clearing
EU	European Union
FSS	Funding Share System
GB	Great Britain
IWA	Initial Written Assessment
MW	Megawatts
RCRC	Residual Cashflow Reallocation Cashflow
NETSO	National Electricity Transmission System Operator
NEMO	Nominated Electricity Market Operator
NRA	National Regulatory Authority
OAT	Operational acceptance testing
UAT	User acceptance testing
TCR	Target Charging Review
SAA	Settlement Administration Agent
SCR	Significant Code Review
SVA	Supplier Volume Allocation
WG	Workgroup

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.

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External Links		
Page(s)	Description	URL
5	P361 Modification Page	https://www.elexon.co.uk/mod-proposal/p361/
6	BSC Section D	https://www.elexon.co.uk/bsc-and-codes/balancing-settlement-code/bsc-sections/
7	Funding Share guidance document	https://www.elexon.co.uk/guidance-note/funding-shares/
9	Interconnector Trading guidance document	https://www.elexon.co.uk/guidance-note/interconnector-trading/
9	EU Third Package - EC 714/2009	https://publications.europa.eu/en/publication-detail/-/publication/924a1d7c-1961-4421-be9e-3c740524436e/language-en
9	Capacity Allocation and Congestion Management (CACM)	http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R1222
10	Modification Proposal P278	https://www.elexon.co.uk/mod-proposal/p278-treatment-of-transmission-losses-for-interconnector-users/
10	Connection Use of System Code (CUSC) Modification Proposal (CMP) 202	http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/Concluded-201-250/
10	Modification Proposal P285	https://www.elexon.co.uk/mod-proposal/p285/
17	BSC Panel Meeting	https://www.elexon.co.uk/meeting/bsc-panel-297/
23	BSC Panel Meeting	https://www.elexon.co.uk/meeting/bsc-panel-298/
23	ACER Website	https://www.acer.europa.eu/Media/News/Pages/ACER-analyses-national-methodologies-for-electricity-transmission-tariffs-in-the-EU.aspx

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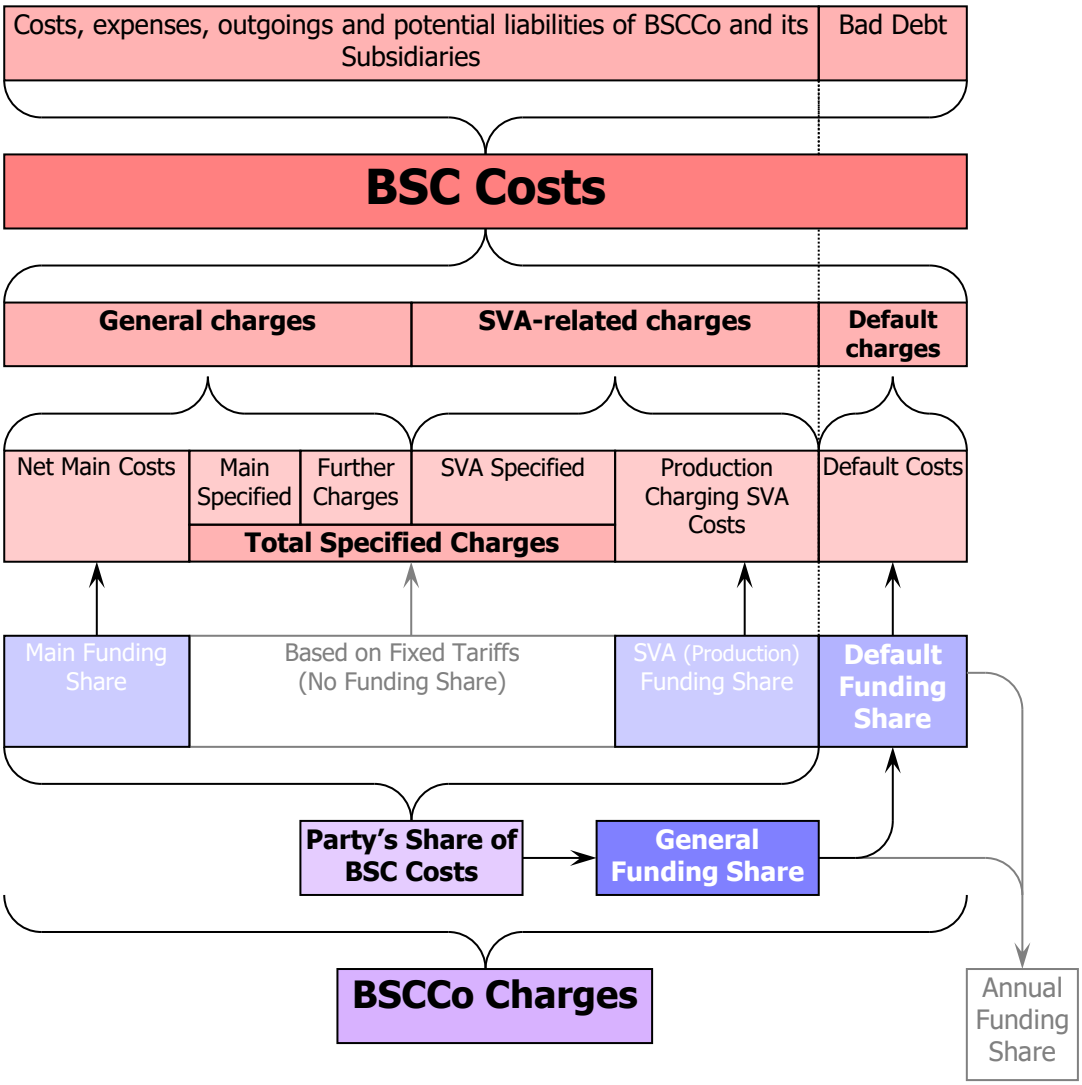

Main Funding Share Worked Example

So if a Party has 200MWh credited to their Production account, and there is 20,000MWh credited overall to Production, the Party has 200/20,000 of the Production QCE, which is 0.01 or 1%. Say they also have 0.03 or 3% of the Consumption QCE then their Main Funding Share would be (0.01+0.03)/2, which is 0.02 or 2%. As a result, the Party would pay 2% of the money counted as the Net Main Costs.

SVA (Production) Funding Share

Continuing the above example, the Party has 200MWh of energy in their Production account, out of a total of 20,000MWh. As a result, their SVA (Production) Funding Share would be 200/20,000, which is 0.01 or 1%, and they would therefore pay 1% of the month's Production Charging SVA costs.

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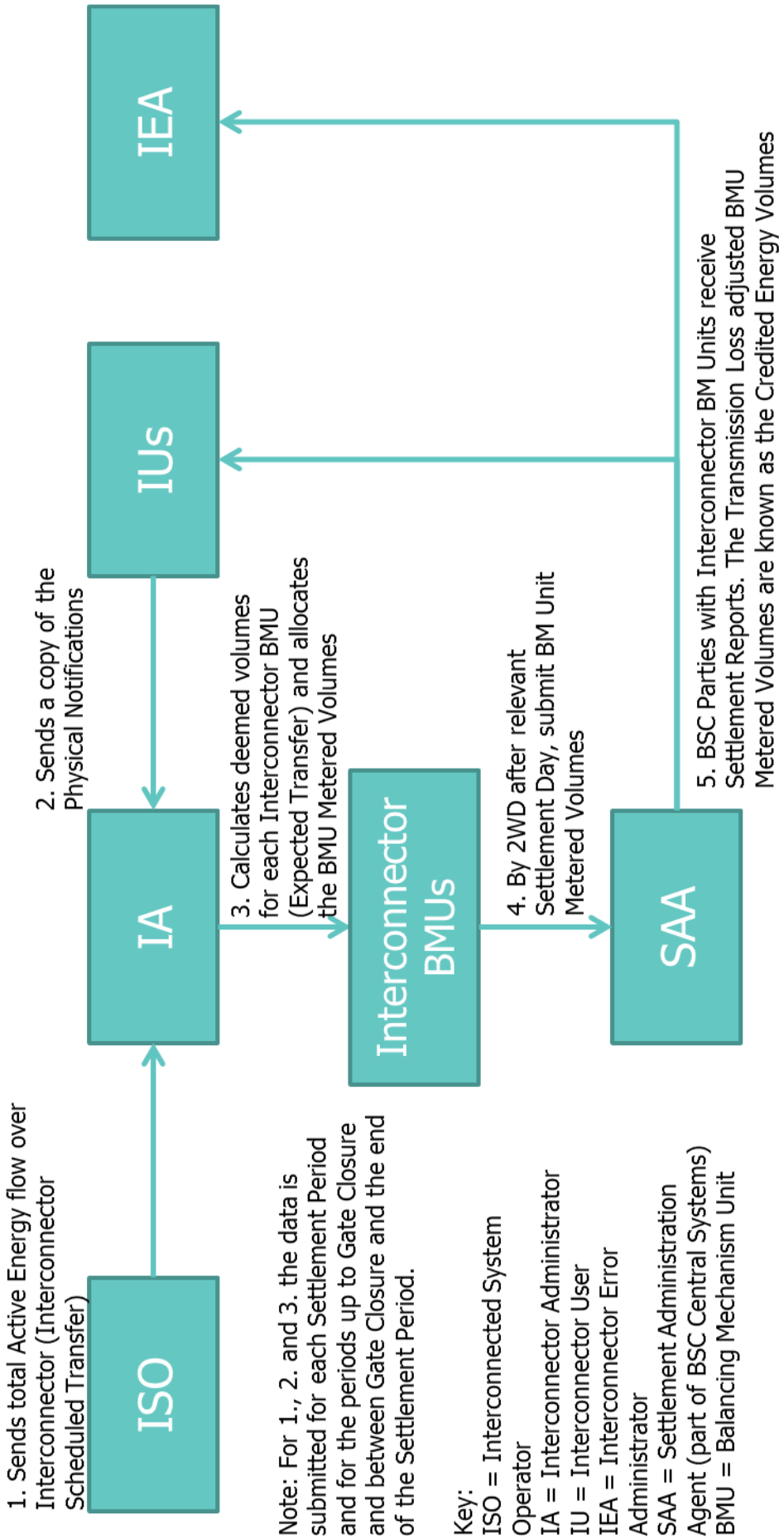
Appendix 3: Allocation of BM Unit Metered Volumes to Interconnector BM Units



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