

March 2002

DEFINITION REPORT
MODIFICATION PROPOSAL P62 –
Changes to Facilitate Competitive Supply On the
Network of New Licensed Distributors

Prepared by the Volume Allocation Modification
Group on behalf of the Balancing and Settlement
Code Panel

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b Distribution

Name	Organisation
BSC Panel	

c Related Documents

The following documents are referenced from within this document using the following convention [RD/x]:

- 1 DBFG Document - Requirements Specification – New Licensed Distributors, Version 0.4, 8 January 2002
- 2 P62 Initial Written Assessment, Version 1.0, 11 January 2002
- 3 Modification Proposal P62 - Initial Consultation, Version 1.0, 21 February 2002

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1 SUMMARY AND RECOMMENDATIONS

Modification Proposal P62 (Annex 1) was raised by TXU Ltd on 3 January 2002. Prior to the introduction of the Utilities Act 2000 on 1 October 2001, distribution of electricity was not a distinct licensable activity. P62 seeks to introduce changes to facilitate competitive supply on the networks of new licensed distributors in recognition of the potential explicit licensing of distribution.

At their meeting of 17 January 2002, the Panel determined that further definition of the issues encompassed by the Modification Proposal was required. Furthermore, the Panel determined that the Definition Procedure¹ should be undertaken by the Volume Allocation Modification Group (VAMG) and that a Definition Report should be prepared and submitted to the Panel meeting of 14 March 2002 outlining the issues raised by the Modification Proposal.

Prior to raising P62 an industry group² (the DBFG) had investigated the impact of new licensed distributors and made a recommendation on the proposed way forward, this was then raised within the governance of the BSC as P62. The VAMG met to discuss Modification Proposal P62 on 24 January 2002 and it is on the basis of the DBFG Requirements Specification [RD/1], and discussion at this meeting, that a consultation document [RD/3] was produced by the VAMG. The aim of the consultation was to introduce the existing work performed by the DBFG and to elicit views on their recommended approach, commonly referred to as Option 7.

The Definition Procedure consultation was issued on 21 February 2002 with responses due back by close of business 28 February 2002. The responses from the consultation are presented in Annex 2 of this report and a summary is included in Section 7.1.

On 5 March 2002, the VAMG met to review and discuss the P62 Consultation responses and to finalise the Definition Report for Modification Proposal P62.

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Definition Procedure, and the resultant findings of this report, the VAMG recommends that the BSC Panel should:

- **AGREE the submission of the proposal to the Assessment Procedure;**
- **AGREE that an Assessment Report be submitted to the Panel meeting of 13 June 2002.**

¹ Pursuant to Section F2.5 of the Balancing and Settlement Code

² the Distribution Business Focus Group (DBFG) was formed by the MRA Executive Committee (MEC) to provide a co-ordinated industry view on the changes to support new licensed distributors.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('BSC'). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 MODIFICATION GROUP DETAILS

This Definition Report has been prepared by the Volume Allocation Modification Group (VAMG). The Membership of the VAMG was as follows:

Name	Organisation	Relation	Mtg 24/01	Mtg 05/03
Peter Davies	ELEXON	Chairman	Y	Y
Phil Russell	TXU	Proposer	Y	Y
Bob Brown	Cornwall Consulting	Member	Y	Y
Richard Harrison	Npower	Member	Y	Y
Neil Magill	Scottish Power	Member	Y	Y
Chris Pooley	Campbell Carr	Member	Y	Y
Clare Talbot	NGC	Member	Y	Y
Katherine Bergin	Scottish & Southern	Member	Y	Y
Paul Chesterman	London	Member	Y	N
Brian Nichol	Northern	Member	N	N
Rob Cullendar	BGT	Member	N	Y
Paul Jones	Powergen	Member	N	Y
Andrew Neves	EME	Member	N	Y
Gwilym Rowlands	ELEXON	Member	N	Y
Malcolm Burns	SESL	Attendee	Y	Y
Jill Ashby	MRASCo	Attendee	Y	Y
Patrick Smart	Ofgem	Attendee	Y	N
Karen Lee	St Clements	Attendee	Y	Y
Nicole King	ELEXON	Attendee	Y	N
John Lucas	ELEXON	Attendee	Y	N
David McNair	ELEXON	Attendee	Y	N
Eddie Wall	BGT	Attendee	Y	N
Andrew Latham	BGT	Attendee	Y	Y
Anthony Harris	Siemens Metering	Attendee	Y	N
Chris Groucott	Logica	Attendee	Y	N
Richard Hartley	Yorkshire	Attendee	Y	N
Jan Devito	St Clements	Attendee	N	Y
Craig Daly	SSE	Attendee	Y	N
Jonathan Purdy	SEEBOARD	Attendee	N	Y

4 DESCRIPTION OF PROPOSAL

4.1 Utilities Act

Prior to the introduction of the Utilities Act 2000 on 1 October 2001, distribution of electricity was not a distinct licensable activity. The licensing regime for distributors was as follows:

- the fourteen Public Electricity Suppliers (PES) had licence conditions related to distribution included in their PES licences;
- other organisations were able to own and/or operate private distribution networks, without any obligation to apply for a licence, or comply with the BSC, Master Registration Agreement (MRA) or Settlement Agreement for Scotland (SAS).

The current trading arrangements allow private distribution networks to be handled in one of two ways:

- a single point of connection between the Public Distribution System and the private distribution network is registered in Supplier Meter Registration Service (SMRS) but none of the entry and exit points are registered; or
- the BSC (in England and Wales) allows the network to be 'adopted' by the Public Distribution System Operator (PDSO). In this case it would be treated for settlement and registration purposes as part of the Public Distribution System. All of the entry and exit points would be recorded in SMRS by the PDSO, and the network would therefore be open to competitive supply.

Following the implementation of the Utilities Act on 1 October 2001, distribution of electricity is now a licensable activity, and as a result entities other than a PDSO may be obliged (or choose) to obtain Distribution Licences.

The industry view was that changes would be required to the BSC, MRA and SAS in order to allow licensed distributors to meet their obligations, and also to open up the networks to competitive supply.

4.2 Distribution Business Focus Group

In order to provide a co-ordinated industry view of the changes required to support new licensed distributors, the MRA Executive Committee (MEC) established a New Distribution Business Focus Group (DBFG). This has representatives from suppliers, distributors, MRASCo, ELEXON, SESL and Ofgem.

Discussion within the DBFG on how to facilitate competitive supply on the networks of licensed distributors were already at a fairly advanced stage prior to raising P62. The key settlement and registration issues were reported to the Panel in September 2001 and these issues have since been progressed further by the DBFG.

On 6 November 2001, the DBFG issued for consultation³ a paper describing high-level settlement and registration options. The responses to the consultation process resulted in

³ The consultation paper was issued to all MRA Parties, and posted on the BSC website (www.elexon.co.uk). The responses to the consultations have also been made available on the BSC website

a Requirements Specification [RD/1] being produced and this has since been approved by MEC.

P62 provides a mechanism for modifying the BSC in line with the results of the DBFG recommendation and the requirements within [RD/1].

4.3 Modification Proposal P62

TXU UK Ltd raised P62 on 3 January 2002. The proposal details the changes to the BSC in order to reflect the Electricity Distribution Licence changes. It also states that the mechanism for achieving this will be defined as a result of the work undertaken in the DBFG, as documented in [RD/1].

The DBFG recommended approach is based on the following assumptions:

- no change to the definition of a GSP Group;
- all metering systems for a given distributor to be registered in a single SMRS:
 - if a GSP Group contains distribution networks operated by more than one licensed distributor, its metering systems will be split across more than one logical SMRS;
 - the SMRS for any distributor, that chooses to operate in more than one GSP Group, will have to be able to support metering systems registered in more than one GSP Group.

This can be summarised as “one distribution business equals one SMRS, without the creation of new GSP Groups”.

ELEXON prepared an Initial Written Assessment (IWA) [RD/2] for P62, which was presented to the Panel on 17 January 2002. This requested that the Modification Proposal be submitted to the Assessment Procedure with a four-month assessment period and an interim report after two months. The Panel decided this was best addressed by placing it initially in the Definition Procedure to report back to the Panel on 14 March 2002.

The Panel also expressed concerns whether the work required to undertake the proposal was efficient or cost effective and whether there was a requirement in the Utilities Act to produce competition. It was reported that the requirement was to ‘enable’ competition of supply within new licensed distribution networks and that the proposal was a necessity.

The Panel also requested that the Modification Group consider all the cost implications, including industry costs and define what ‘effective’ meant in relation to the Applicable BSC Objective

5 ISSUES RAISED BY THE PROPOSED MODIFICATION

5.1 Requirement For Modification Proposal

With the introduction of the Utilities Act 2000 on 1 October 2001, it is now possible that new distribution licences will be granted to entities, other than the existing PDSOs, to include networks that would previously have been considered private distribution networks. The obligations placed on such licensed distributors include the following that relate to the BSC:

- an obligation to become a BSC Party, if distributing electricity in England or Wales (under Condition 10 of the standard licence);
- an obligation to prepare a schedule of distribution charges and Line Loss Factors (LLF) (under Condition 4 of the standard licence).

In addition due to the requirement for separation of businesses, any activity other than distribution would need to be separately licensed, as appropriate (e.g. Supply).

P62 was raised to make the necessary changes to the BSC in order to allow licensed distributors to meet their obligations, and to facilitate competitive supply on the networks of such licensed distributors, in the same manner as is possible for existing Public Distribution Systems

Under the current BSC it is not clear whether the new distributor could achieve this. The current approach of arranging for the network to be "adopted" by the PDSO could be extended. All of the entry and exit points would be recorded in SMRS by the host PDSO, and the new network could therefore be considered open to competitive supply. However, this would require the new network to be considered as part of the Public Distribution System for all settlement and registration purposes. Although the PDSO is required⁴ to provide SMRS services for all of their Distribution Services Area, this does not cover all aspects of the "adoption"⁵. In addition as the new distributor would be taking all their services from another competing distributor, without additional support from the BSC and MRA, it would be hard to ensure this was competitive / economic and that this new class of Party was not being disadvantaged.

Alternatively the new distributor could devise a set of non-BSC trading arrangements to provide competitive supply. This was not considered by the DBFG to be a realistic undertaking.

Against this background P62 was raised, with the aim that it could better achieve objective (c) of the Applicable BSC Objectives⁶ by making it viable for Suppliers to effectively compete within newly licensed distribution networks.

⁴ Condition 37 of the Distribution Licence.

⁵ This is similar to DBFG Option 1A. It was recognised that this option, although minimising the impact on settlement, would require extensive changes to the operation of a PDSO and to be effective would require support from the BSC and MRA.

⁶ The Applicable BSC Objectives (as defined in the Transmission Licence) are:

- (a) the efficient discharge by the Licensee of the obligations imposed upon it by the licence;
- (b) the efficient, economic and co-ordinated operation by the Licensee of the Licensee's 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; and
- (d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements

The VAMG considered this information and whether the approach proposed by P62 represented the best way forward. The DBFG had initially considered a number of options and narrowed the choice down to three potential approaches⁷:

- **Option 1** - is where every licensed distributor uses the existing SMRS associated with the relevant GSP Group. The key feature of this is that it maintains the 1-1 relationship between GSP Group and SMRS, but introduces a many to many relationship with the distributors;
- **Option 1A** - is a variant of Option 1 where the PDSO would fulfil all the settlement and registration obligations on behalf of the new embedded distributor, i.e. the new distributor is therefore “hidden” from the rest of the industry. The key feature of this is that it gives the impression of maintaining the 1-1 relationship between GSP Group, SMRS and distributor, meaning there would be no changes to the Supplier Agents or Supplier Volume Allocation Agent (SVAA). The problem is that there would need to be bi-lateral agreements between the distributors to get the appropriate information forwarded by the PDSO to the embedded distributor. This was initially proposed as a short term solution as the DBFG recognised it was not a good industry model;
- **Option 7** - is for each distributor to provide or procure a single SMRS. This maintains the ability to use the core Metering Point Administration Number (MPAN) to identify both distributor and SMRS, but introduces a many to many relationship between the distributor/SMRS and the GSP Group.

As a result of the DBFG consideration, and an industry consultation, the DBFG recommended Option 7, which was then formalised within P62. The VAMG considered the previous DBFG work and agreed with the recommendation that Option 7 should form the basis of P62.

It was decided that this should form the basis of a consultation question. However, the VAMG also felt it was too early in the assessment to consult on whether P62 would better achieve the Applicable BSC Objectives. One reason was the difficulty in determining a suitable baseline for a comparison, as the implications of a new licensed distributor operating under the existing BSC rules were not clear. The VAMG also believed it was too early to consider cost implications and what ‘effective’ meant in relation to the Applicable BSC Objectives, and that these would be further addressed during the Assessment Procedure.

5.2 Modification Proposal Scope

The VAMG also discussed those areas that the IWA [RD/2] considered should be considered out of scope, and in each instance confirmed that this was a pragmatic decision:

- **no direct connections to the Transmission System** – the VAMG decided that it is reasonable to assume that this would not occur for at least two years, and did not represent an immediate issue. The VAMG agreed with the DBFG recommendation that this was best addressed as a separate modification;
- **no registration of the metering point between two distribution networks in CMRS** – the VAMG recognised that most distribution businesses would want a

⁷ See [RD/3] or [RD/1] for a detailed explanation of the considered options.

metering point between the two networks, however, it was not clear that this had to be registered in Central Metering Registration System (CMRS), as it was not required for Settlement. The VAMG considered it was correct to consider this out of scope and to expect an additional Modification to progress the issue, if a distribution business decided this was required⁸;

- **no consideration of how the LLF and DUoS for each distribution network are calculated and proportioned** – the VAMG accepted that this was a complex and potentially difficult area, however, the BSC Systems should assume each of these would be provided/reported as a single consolidated figure from/to the embedded distributor. This was in line with the view held by the DBFG;
- **no transferring of metering points from one distribution business to another** – the VAMG recognised that although this is a major limitation, the problem was not limited to new licensed distributors and that it should be addressed outside P62.

A consultation question on these issues was also asked of the Parties to obtain their views.

5.3 Consideration of Legal Issues

The VAMG also discussed a number of legal and regulatory issues that had been raised. ELEXON confirmed these were being progressed with the Authority. The VAMG, with help from the Authority's representative, agreed that in the meantime they should make working assumptions in relation to each of these issues. There is a concern as to whether:

- the obligation for the new distribution business to provide an SMRS service will be included in any licence that is granted, or whether it should be in the BSC and/or MRA. The Group supported the assumption that this would be in the BSC and/or MRA;
- the DBFG proposals are permitted within the existing MRA (and DTS) legal framework without further licence modifications. The Group supported the assumption that this would be resolved and would not impact the proposed mechanism.
- a single legal entity could hold more than one distribution licence and how a licence would apply to an entity owning more than one network. The Group supported the assumption that each legal entity should have one license covering all networks. In addition it recognised that the practical impact on the proposed mechanism was related to the number of Distribution IDs that would be required;
- it is acceptable to exclude directly connected networks from the scope of P62. The Group had already agreed it was reasonable to assume that it would take at least two years for such a licence to be granted and that it was acceptable to proceed on this basis;
- a previously unlicensed network could have embedded exempt suppliers. The Group recognised that this was no different from the handling of exempt suppliers within existing distribution networks, and that this was not a specific P62 problem. The Group accepted this should not impact the progression of P62 at this stage.

These issues are still being progressed and will be carried forward into the Assessment Procedure. It was not considered appropriate to ask a specific consultation question on these issues.

⁸ This was raised by SEEBOARD as Modification Proposal P70 on 1 March 2002.

5.4 Desirable Requirements

The VAMG also discussed the desirable requirements within the Requirements Specification [RD/1] and decided:

- **Requirement 5.2.2** – this suggests each combination of Supplier Hub (i.e. Supplier and associated Agents) and SMRS should go through an entry process prior to use. The VAMG acknowledged that this was important and should be treated as a mandatory requirement;
- **Requirement 5.5.1** – this suggests that Market Domain Data (MDD) should include details of which distributors (and associated SMRS) are operating in each GSP Group. The VAMG decided that the business case for such a requirement would need to be established and that this should be considered when requesting impact assessments during the Assessment Procedure;
- **Requirement 5.6.2** – this suggested that distributors should be able to register in CMRS the metering at the connection point between the two Distribution Systems. The VAMG confirmed that this was out of scope of P62;
- **Requirement 5.7.1** – this referred to the action that SVAA should validate files received from Data Aggregators using standing data. The VAMG agreed that SVAA validation was intended to check that all expected data had been received from the Data Aggregators. It was not seen as validating that data contained the correct Supplier Hubs. The VAMG considered this was related to MDD and like requirement 5.5.1 should be considered during impact assessment.

A consultation question was also asked of the Parties to obtain their views.

6 THE NEED FOR FURTHER ASSESSMENT AND EVALUATION

The VAMG believes that further work is required to assess P62 and that a three-month Assessment Procedure should be recommended.

This phase should include the creation of a P62 Requirements Specification (based on Option 7), which is restricted to the issues relevant to the BSC. This should expand on the requirements in [RD/1] and also provide more detail on the proposed solution. Once complete it should be issued for industry impact assessment⁹.

As identified in the IWA [RD/2] other changes are required to the MRA and SAS. The work to identify these changes is progressing in parallel within MRASCo and SESL and to date have not identified any changes to the original DBFG Requirements Specification [RD/1].

Further work will take place within the Assessment Procedure to ensure the necessary Change Proposals (CPs) are raised on the MRA to cover the changes required to support the BSC P62 changes. MRASCo are also expected to raise additional CPs for those changes that are outside the scope of P62 (for instance the commercial arrangements between the host and embedded distributors).

In addition work is required between ELEXON, MRASCo and the Authority to resolve the outstanding legal and regulatory issues (Section 5.3). The BSC legal drafting is an important aspect of P62, as some of the high-level changes will define the framework for the underlying solution. The process to draft the necessary changes has already started, and the VAMG has considered a first draft. It is expected this will be revised during the progression of P62 and also used to identify further requirements.

The complex nature of P62 means that the Assessment Procedure should also consider the implementation strategy for the Modification, including synchronising any work with the other areas impacted by the introduction of new licensed distributors, e.g. the MRA and SAS.

P62 will have a significant impact on the BSC Procedures (BSCP), not only to reflect new obligations, but also to make the necessary low-level edits to move the majority of obligations from PDSO to the new Licensed Distributor System Operator (LDSO). It is not expected that the process to define the precise BSCP drafting will be complete until after the Authority has made its determination on P62¹⁰.

A further consultation will be performed during the Assessment Procedure to seek Parties views on whether P62 better achieves the Applicable BSC Objectives. It is recognised the difficulties this presents, as P62 is an extensive initiative and will have significant associated costs, not all directly attributable to the changes in the BSC and BSC Systems.

At present there are no plans by the VAMG to introduce an Alternative Modification, such as Option 1A. It is recognised this would cause significant problems with the parallel work being undertaken by MRASCo and SESL. However, this decision will be reassessed if required during the Assessment Procedure.

⁹ An initial impact assessment has already been performed on Supplier Volume Allocation Agent (SVAA), and the ELEXON maintained Non Half Hourly Data Aggregator (NHHDA) software, and that has confirmed the assumptions made so far about the impact on the BSC Systems.

¹⁰ SESL have confirmed that their modification process includes any changes to their equivalent of the BSCPs, and hence these would need to be made before they can complete the assessment of a modification to the SAS.

7 REPRESENTATIONS BY PARTIES AND INTERESTED THIRD PARTIES

7.1 Summary of Representations

The initial Modification Group meeting (24 January 2002) discussed a number of aspects about the work done by the DBFG and their recommendation of adopting Option 7. It was decided that the initial consultation [RD/3] should seek to find the level of acceptance for these findings. On this basis three questions were asked, whether the parties agreed with:

- the basic DBFG recommendation of Option 7;
- the areas considered outside the scope of P62;
- the treatment of desirable requirements within the Requirement Specification [RD/1].

The consultation was issued on 21 February 2002 with responses due by 28 February 2002. There were 12 responses to the consultation representing 53 Parties. The following section describes the representations received on each of the four questions and the VAMG view on the issues these raised, as discussed at the second Modification Group meeting (5 March 2002).

7.2 DBFG Recommendation For Option 7

The consultation asked whether the Parties agreed with the VAMG, that the DBFG recommendations for Option 7, and hence the proposed solution for P62, should be accepted and used as the starting point for Modification P62.

7.2.1 Consultation Responses

The majority of respondents (9) and Parties (39) supported the VAMG view.

The three respondents that did not support the adoption of Option 7 provided the following reasons:

- one respondent did not feel that Option 7 adequately covered all the issues regarding the modification, and that Option 1 would provide a better starting point;
- one respondent believed that the cost of the modifications should be taken into account and weighed against the competitive benefits achievable for customers within private distribution networks. The potential demand for such services should be considered. Their view was that a quick fix to facilitate supply competition in new licensed distribution networks should be undertaken at minimum cost;
- one respondent believed that unless some means is found of ensuring that the new Supplier always has the correct MPAN, including the necessary fields to determine both the correct SMRA and GSP Group (and that their systems can work this out), this change is likely to result in a significant increase in erroneous registrations.

One respondent, although supporting the VAMG view on Option 7, believed that the additional complexity would lead to further customer confusion. Given the existing problem of customers not knowing their Supplier, it should be expected there would a significant number who would not know the identity of their distributor. This problem would be

compounded as a customer could potentially be registered within an SMRS in an entirely different ex-PES geographical area.

NGC also reiterated the significance of GSP Group as the only geographical identifier of demand and hence their concern about those options which would break that link (this problem does not apply to Option 7). This is of particular concern with respect to the proposals on transmission access and losses under NETA.

7.2.2 Modification Group View

The VAMG noted the majority of respondents and Parties supported the VAMG view that Option 7 should be used as the starting point for P62.

The VAMG considered the reasons given by those who did not support this approach. The VAMG did not believe any new arguments were presented in support of Option 1, and those reasons provided related more to anticipated difficulties in achieving a successful outcome, than problems with the principle of Option 7.

The VAMG already recognises there will be the potential for increased confusion with the introduction of new licensed distributors for both customers and Suppliers. However the VAMG felt this was more of a consequence of the Utilities Act than the choice of Option 7.

It was considered important to ensure any operational issues were made clear during the Assessment Procedure and where possible steps taken to mitigate them.

The VAMG also considered the response suggesting an analysis of the benefits of P62 may suggest a “quick fix” with minimal cost may be appropriate. The VAMG believed that, for some of the reasons discussed above, it was necessary to produce a robust solution.

7.3 Scope of P62

The consultation asked whether the Parties agreed with the VAMG that the areas identified in the IWA [RD/2] as being outside the scope of P62 were valid exclusions, and should not be progressed within P62.

7.3.1 Consultation Responses

The majority of respondents (9) and Parties (45) supported the VAMG view.

A number of respondents indicated concerns regarding the treatment of one or more of the areas excluded from the scope of P62:

- three respondents expressed concern about the exclusion of the ability to register the inter distribution meter in CMRS¹¹. It was recognised that although this meter was not directly required for settlement, there was an indirect need to ensure data quality. One respondent went as far as linking their support for P62 on the assumption this issue was resolved;
- three respondents expressed concern over the exclusion of distributors connecting directly to the Transmission System. Whilst they recognised the reasons for this decision, they believed that consideration of the issue should not be delayed. The response from NGC recognised that although it was reasonable to expect a period of

¹¹ This was raised by SEEBOARD as Modification Proposal P70 on 1 March 2002.

two years to construct new connections to the Transmissions System, they were aware of the existence of private distribution networks already connected directly to the Transmission System. It was reasonable to assume they may apply for a distribution license in a much shorter timescale;

- one respondent recognised these were pragmatic exclusions. However, they believed it would be appropriate to consider how robust the proposed solution was against the excluded issues;
- one respondent believed it reasonable to expect further debate within P62 on what / how new LLFs will be treated;
- one respondent stated that whilst they were in agreement over the exclusions as a means to ensure progress in assessing P62, they wished to ensure that the industry did not lose sight of what were valid issues and that owners should be assigned to each issue.

7.3.2 Modification Group View

The VAMG noted the majority of consultation responses supported their view on the areas to be excluded from the scope of P62.

The VAMG discussed the issue of allowing the meter between the Distribution Systems to be registered in CMRS. The VAMG believed that as this is now the subject of Modification Proposal P70 that it was no longer an issue for P62.

The response from NGC regarding the issue of Distribution Systems directly connected to the Transmission System was discussed. The view from the VAMG remained that at present this was a low risk assumption, although this situation should be monitored.

The VAMG also discussed the wider issue of areas outside the scope of P62 (for example the production of LLFs). It was recognised that although such issues were outside P62, they were being progressed as part of the overall package of work within the DBFG and MRASCo to introduce new licensed distributors.

7.4 Desirable Requirements

The consultation asked whether the Parties agreed with the VAMG regarding the suggested treatment of the Desirable Requirements in [RD/2].

7.4.1 Consultation Responses

The majority of respondents (9) and Parties (46) indicated support for the VAMG recommendations on the treatment of desirable requirements.

A number of respondents indicated concerns regarding the treatment of one or more of the desirable requirements:

- two respondents noted that care should be taken with requirement 5.2.2 to ensure that only new SMRS were subject to an entry process, and that a change in the rules did not require existing SMRS to be retested;
- one respondent believed that in respect to requirement 5.5.1 it would not be desirable for the Data Aggregators to validate the distributor / GSP Group combinations as this

could lead to rejection of combinations acceptable to SMRS, an operational problem that has caused problems in the past;

- another respondent believe the requirement 5.5.1 was required precisely because of the increased complexity of increased distributor / GSP Group combinations.

7.4.2 Modification Group View

The VAMG noted the majority of consultation responses supported their view on the treatment of desirable requirements.

The VAMG clarified that there was no intention to cause all existing Supplier Hub combinations to perform a new entry process. The intention was to limit the entry process to new distributors entering as licensed distributors for the first time. It was noted that care would need to be taken with new distributors who choose to use an existing SMRS procured from another existing distributor. The new SMRS instance would be operating under a different identity and could be considered to be new. It was recognised that this aspect would need to be clarified during the Assessment Procedure.

The VAMG discussed the requirement 5.5.1 and the issue of Data Aggregators validating data. The view was that if any additional validation was to be performed it should be in one place, namely the SMRS. The VAMG agreed that using the Data Aggregators to validate data could lead to the problems that had been experienced in the past. Further consideration of other uses of the MDD concluded that, in order to enable the SMRS to validate PC/SSC combinations, the changes to the Market Domain Data should be considered mandatory.

The VAMG considered requirement 5.7.1 regarding the use of SVAA standing data to validate files received from the Data Aggregators. SESL stated this would be a costly option for Scotland as it represented a significant proportion of the cost to enhance their equivalent of SVAA. ELEXON confirmed that their own impact assessment had also suggested this requirement would conflict with a previous change¹² to SVAA, to update standing data with any unknown combinations. The VAMG recognised that this requirement would probably not be progressed.

7.5 Further Views

7.5.1 Consultation Responses

In addition to the three questions Parties were requested to provide any additional comments on P62:

- one respondent noted that it was important to ensure that there was a clear process for dealing with an existing private distribution network when it reached the threshold for becoming a licensed distribution network. In particular that the necessary standing data could be set up for the new distributor/SMRS in a timely fashion;
- one respondent was not convinced that this Modification, as currently proposed, would actually help competition in Supply generally. While they appreciated the potential benefits of competition to customers on these networks, their view was that the

¹² SIR R2180 (Impact of Inaccurate Standing Data on Stage 2 Settlement) – see Pool Change Management Circular 1291 for further details

proposed solution clearly leads to a more complicated and risky process for new Suppliers, particularly those not linked with a distribution business

- one respondent was supportive of P62 and Option 7, however believed that if a proposed solution was not in place by March 2003, then Option 1a should be allowed as an interim solution;
- one respondent believed there were issues with regard to Option 7, in particular to Scotland, and that the resolution of these would be a particular interest to the respondent;
- one respondent expressed concern about the one-off and ongoing cost recovery mechanisms and who was responsible for them;
- one respondent was concerned about the impact on industry parties and ensuring they were fully assessed given the fundamental nature of the change. They believed that care should be taken to ensure timescales were achievable and gave interested parties sufficient notice.

7.5.2 Modification Group View

The VAMG considered the additional views provided by in the consultation responses. The VAMG did not believe they introduced any new issues and each had already been addressed, or where appropriate, would be considered further during the Assessment Procedure.

The VAMG felt it worth noting two points:

- one respondent stated that if P62 could not be delivered by March 2003, then Option 1a should be progressed. The VAMG felt that should this occur then Option 1a could be achieved using bi-lateral arrangements and that would continue to be the case.
- one respondent expressed concern about the cost recovery mechanisms, the VAMG did not feel this was an issue for the VAMG and that Ofgem was already considering this issue.

ANNEX 1 – MODIFICATION PROPOSAL

Modification Proposal	MP No: 62 <i>(mandatory by BSCCo)</i>
Title of Modification Proposal <i>(mandatory by proposer):</i> Changes to Facilitate Competitive Supply On The Networks Of New Licensed Distributors	
Submission Date <i>(mandatory by proposer):</i> 4 January 2002	
<p>Description of Proposed Modification <i>(mandatory by proposer):</i></p> <p>Currently the only licensed Distributors in England and Wales are the twelve Public Distribution System Operators (PDSO). The BSC facilitates competition in supply for the customers on their networks, by obliging PDSO to provide a Supplier Meter Registration Service (SMRS), and obliging Suppliers to register their imports and exports. However, the Utilities Act 2000 enables organisations other than PDSOs to become licensed Distributors. New Licensed Distributors will not be subject to the same BSC obligations as PDSOs, and this will hinder competition in supply for customers on their networks.</p> <p>It is therefore proposed to amend the BSC to extend the benefits of competitive Supply to customers on the networks of all Licensed Distributors. (It should be noted that Licensed Distributors will be obliged to become Parties to the BSC by condition 10 of the standard licence.)</p> <p>Discussion within the industry on how to facilitate competitive supply on the networks of licensed Distributors is already at a fairly advanced stage. The key settlement and registration issues were reported to the Panel in paper P/30/26, and these issues have since been progressed further by a New Distribution Business Focus Group (DBFG) set up by the MRA Executive Committee (MEC). This Modification Proposal is intended to provide a mechanism for amending the BSC in line with the results of these discussions.</p>	
<p>Description of Issue or Defect that Modification Proposal Seeks to Address <i>(mandatory by proposer):</i></p> <p>Currently the BSC fails in a number of ways to facilitate competition in Supply for customers on the networks of Licensed Distributors other than PDSO:</p> <ol style="list-style-type: none"> 1) It places no obligations on Distributors and Suppliers to ensure that all the entry and exit points are recorded on an SMRS. 2) It defines the terms 'Supplier Meter Registration Agent' and 'Supplier Meter Registration Service' in a way that precludes anyone other than a PDSO from fulfilling the role. 3) It does not allow anyone other than a PDSO to fulfill other key Distributor obligations e.g. maintaining inventories of Unmetered Supplies, and submitting Line Loss Factors to settlement. <p>The combined effect of these defects is that Suppliers will find it extremely difficult to provide competitive Supply to customers on these networks.</p>	

Modification Proposal	MP No: 62 <i>(mandatory by BSCCo)</i>
<p>Impact on Code <i>(optional by proposer):</i></p> <p>Further analysis is required to define in detail the required BSC changes. However, based on discussions at the Registration and Settlement Subgroup of the DBFG, it is anticipated that the changes required to the BSC are likely to include the following:</p> <ol style="list-style-type: none"> 1) The commercial boundary of the BSC (i.e. the definition of 'Total System') should be extended to include the networks of all licensed Distributors. The intention of this is to ensure that all entry and exit points from licensed Distribution networks must be registered (in SMRS or CMRS). 2) The definitions of 'Supplier Meter Registration Agent' (SMRA) and 'Supplier Meter Registration Service' (SMRS) should be amended to allow any licensed Distributor to perform the role. (This is consistent with the recommendation of the DBFG that each licensed Distributor should be obliged to provide or procure an SMRS for its own networks). 3) Where appropriate, current PDSO obligations under the BSC should be extended to all licensed Distributors. Examples include the obligation in K1.7 to submit Line Loss Factor values in accordance with BSCP28 and/or BSCP528; the obligation in K3.1 to ensure that the SMRS satisfies an entry process in accordance with BSCP511; and the obligations in S8.2 relating to Unmetered Supply. 4) The entry process requirements in J5.1 are currently drafted in a way that assumes a single SMRA per GSP Group. These should be clarified to allow for the possibility of multiple SMRA per GSP Group. <p>Note that this Modification Proposal is only intended to cover the changes required to open the networks of licensed Distributors to competitive supply. The following additional changes have also been discussed at the DBFG, but are NOT intended to fall within the scope of this Modification Proposal:</p> <ol style="list-style-type: none"> 1) Changes to the definition of GSP Group (to provide more freedom in the allocation of new networks to GSP Groups and/or facilitate competitive supply for networks directly connected to the transmission system). Such changes raise additional issues of principle, and are best treated as a separate issue. 2) Changes to allow Distributors to register within CMRS the boundary metering between two Distribution Systems in the same GSP Group. (Such metering is not required for the purposes of Supplier Volume Allocation, but may be desirable for other reasons e.g. ensuring that the allocation of DUoS charges between Suppliers is equitable.) 	
<p>Impact on Core Industry Documents <i>(optional by proposer):</i></p> <p>This change will also impact a number of Core Industry Documents:</p> <ul style="list-style-type: none"> - The DBFG is planning to report back to MEC on changes required to the Master Registration Agreement. - Similar issues arise in Scotland, and changes may therefore be required to the Settlement Agreement for Scotland. - Changes may be required to the Data Transfer Service Agreement. 	
<p>Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties <i>(optional by proposer):</i></p> <p>The functionality within the Supplier Volume Allocation Agent (SVAA) system that reports metered volumes to Distributors currently assumes that there can only be one Distributor per GSP Group. Enhancements to the SVAA system will be required to remove this constraint.</p> <p>Similarly, some Supplier and Supplier Agent systems may assume that there is only one Distributor and one SMRA per GSP Group. Changes will also be required to these systems. This includes the Non Half Hourly Data Aggregation (NHHDA) software provided by ELEXON.</p>	

Modification Proposal	MP No: 62 <i>(mandatory by BSCCo)</i>
Impact on other Configurable Items <i>(optional by proposer):</i> Changes are likely to be required to a number of BSC Procedures and other configurable items.	
Justification for Proposed Modification with Reference to Applicable BSC Objectives <i>(mandatory by proposer):</i> This Modification Proposal is aimed at facilitating competition in the supply of electricity to customers connected to the networks of Licensed Distributors. It therefore facilitates the achievement of the Applicable BSC Objective in Condition C3(3)(c) of the Transmission Licence (i.e. "promoting effective competition in the generation and supply of electricity").	
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Attachments: NO If Yes, Title and No. of Pages of Each Attachment:	

ANNEX 2 – CONSULTATION RESPONSES

Attached as a separate document.