17 July 2001

DEFINITION REPORT

MODIFICATION PROPOSAL P7 – Allocation of Supplier Demand to the same BM Unit in a GSP Group for all Suppliers in the same Company Group

Prepared by Modification P7 Group on behalf of the Balancing and Settlement Code Panel

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A DOCUMENT CONTROL

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0.1	17/05/01	Trading Development		Initial draft
0.2	18/05/01	Trading Development		Draft For Modification Group review
1.0	23/05/01	Trading Development		Panel Review

Version	Date	Reviewer	Signature	Responsibility
0.2	18/05/01	Trading strategy		
1.0	23/05/01	Trading Strategy		

a Distribution

Name	Organisation
Panel	

a Intellectual Property Rights and Copyright

II CONTENTS TABLE

1 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

2 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as 'Modification Proposals'. These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

The Panel may decide to submit a Modification Proposal to the 'Definition Procedure'[1]. In such cases, the Panel commissions a Modification Group to define the issues raised by a Modification Proposal in sufficient detail to enable the Panel to determine whether to:

a) Refer the proposal back to the Modification Group for further analysis; or

b) Submit the proposal to the Assessment Procedure[2]; or

c) Proceed directly to the Report Phase[3].

The Modification Group is therefore tasked with reviewing the Modification Proposal with a view to providing clarification and definition where there is insufficient detail in the proposal to allow the Panel to decide whether to proceed with a detailed evaluation. The Modification Group must prepare a written report for the Panel that sets out the following matters[4]:

d) An assessment of the issues raised by the Modification Proposal with supporting information and data to explain the effect of such issues by reference to the Applicable BSC Objective(s)[5] and a summary of such assessment;

e) An analysis of and the views and rationale of the Modification Group as to whether (and, if so, to what extent) the issues raised by the Modification Proposal warrant further assessment and evaluation under the Assessment Procedure;

f) A detailed summary of the representations made by Parties and interested third parties during any consultation undertaken by the Modification Group and the comments and views of the Modification Group in respect thereof;

g) A summary of any analysis prepared by the Transmission Company and the comments and views of the Modification Group in respect thereof;

h) A summary of the analysis prepared by relevant BSC Agents and the comments and views of the Modification Group in respect thereof;

[1] See BSC F2.5
[2] See BSC F2.6
[3] See BSC F2.7
[4] See BSC F2.5.4
[5] As defined in the Transmission Licence

i) Where applicable, a copy of the terms of reference and a summary of any report or analysis of external consultants or advisers; and

j) Such other matters as the Panel may require in the terms of reference of the relevant Modification Group.

This Definition Report therefore addresses all of the above items to the extent relevant to the Modification Proposal in question.

3 EXECUTIVE SUMMARY AND RECOMMENDATION

Modification Proposal P7, raised on the 18th April 2001, proposed allowing allocation of Supplier demand to the same BM Unit in a GSP Group for all Suppliers in the same company group. The purpose of this would be to maximise the advantages of any embedded benefits resulting from Licence Exemptable Generation allocated to one of the Suppliers within the GSP Group where the generation exceeded the demand.

An Initial Written Assessment (IWA) was produced by ELEXON and presented to the Panel at their meeting on 3rd May 2001. The Panel considered the proposed modification together with other options presented in the IWA. The options presented in the IWA included utilising existing functionality and new functionality to achieve the same business objective of maximising the embedded benefits.

The Panel agreed to proceed to the Definition stage. In particular, the Panel requested consideration the issues of what embedded benefits are being sought by the proposal and whether these could be delivered by the existing Balancing and Settlement Code rules or the proposed modification.

The Panel requested that the Definition Report be provided to the Panel meeting on 31st May 2001.

Subsequent to the Panel meeting the Modification Proposal and IWA were sent out for consultation and responses were requested by Monday 14th May. 8 responses were received with the majority view supporting the Panel approach that further definition was required (One respondent suggested that the costs of implementing a modification would outweigh the benefits proposed).

The Modifications Group met on 15th May 2001 and considered the proposal and consultation responses. The Group clarified what the specific embedded benefits were; primarily relief from transmission losses, Balancing Services Use of System (BSUoS) and Transmission Network Use of System (TNUoS) charges and Code participant (BSCCo) charges.

The Modifications Group agreed that the existing rules and processes available (utilising Change of Supplier and Meter Splitting processes) could meet the requirements of achieving the embedded benefits. However, these processes were considered not to be sufficiently flexible or simple enough to operate commercially. Therefore, the group felt that there was still potentially a barrier to achieving the embedded benefits where two or more Suppliers within a single Company Group were trading in a GSP Group.

The Modifications group then considered the option contained within the Modification proposal. This was to allow demand from all Suppliers within a Company Group to be allocated to the same Balancing Mechanism Unit (BMU) within the GSP Group (BMU option). The BMU option requires changes to the legal framework, central processes and systems and has impacts on participants.

Therefore, an alternative option was considered (proposed in the Initial Written Assessment), to allow demand in BMUs from Suppliers in the same Company Group to be allocated to the same Trading Unit (Trading Unit option). The group considered the Trading Unit option as a simpler solution requiring less change to Balancing and Settlement Code, central processes and systems and trading parties. As a result it was believed that this option should be less costly to implement than the BMU option. However, the group noted that there were implications on National Grid's charging methodologies, which would need to be considered in parallel with this option.

The Modification Group therefore recommends to the Panel:

1. **To note the above clarification of "embedded benefits";**

2. **To note that the existing rules (utilising Change of Supplier and Meter Splitting processes) provide for limited realisation of the embedded benefits. However, these processes are considered not to be sufficiently flexible or simple enough to operate commercially; and therefore**

3. **That the modification proposal be submitted to the Assessment Procedure, with completion of the Assessment Report for the Panel meeting of 26th July 2001;**

4. **That the Assessment Procedure would analyse in detail of the impact on central processes, systems, legal framework and participant impact and of the indicative costs and benefits of implementing each of the two proposed options - the Trading Unit option and the BMU option;**

5. **To note that the Trading Unit option has implications on National Grid's charging methodologies, which would need to be considered in parallel with this option.**

4 DESCRIPTION OF THE PROPOSAL

On 18th April 2001 Powergen submitted Modification Proposal P7. The Modification Proposal is seeking to allow demand from two or more companies (holding separate supply licences but part of a group companies) to be allocated to the same BM Unit within a GSP Group.

The Modification Proposal states that a particular benefit of this would be to allow embedded, licence exempt generation to be more effectively netted against demand where the generation exceeded the demand on any one supply BMU for that group of companies within the GSP Group

At the Panel meeting on 3rd May 2001, a further paper was presented by Powergen describing the embedded benefits to be derived, giving an illustrated example and an alternative option to the proposal (see Annex 1).

5 EXTENT TO WHICH THE PROPOSED MODIFICATION WOULD BETTER FACILITATE THE APPLICABLE BSC OBJECTIVES

The Proposer states that:

"For historical reasons many company groups have more than one licensed supply company. To maximise the embedded benefits associated with embedded license exempt generation, suppliers need a greater amount of demand in a GSP Group than embedded generation. With the increasing of the generation licence exemption limit and the expansion of CHP and renewable generation, there are more embedded generators expecting to realise these embedded benefits.

These benefits could be better realised if all the demand for a company group could be allocated to the same BM Unit. If the total supply take for a company group can be summed together in a GSP Group, the embedded benefits can be fully secured."

The Modifications Group considered that License exempt generators would be provided with more choice of parties with whom to contract if the proposed modification was agreed.

6 MODIFICATION GROUP DETAILS

At the Panel meeting on 3rd May, the Panel agreed the Terms of Reference for the Modification Group to consider P7. Subsequent to the meeting, the Modification Group was established with the membership agreed by the Panel Chairman on behalf of the Panel. The group met on the 15th May 2001.

A copy of the Terms of Reference and Membership of the Modification Group can be found at Annexes 1 and 2.

7 CLARIFICATION OF THE BENEFITS OF EMBEDDED GENERATION

The Modification Proposal P7 refers to the realisation of "embedded benefits". At the meeting on the 3rd May, the Panel requested the Modifications Group to consider the issues of what embedded benefits were being sought by the proposal and whether these could be delivered by the existing Balancing and Settlement Code rules or the proposed modification. Sections 7 and 8 address these two actions.

The Modification Group noted the OFGEM paper 'NETA – Trading Options for Licence Exemptable Generators', Version 1, 19th January 2001 identified a number of 'embedded benefits' available to Licence Exempt Generators (LEGs) see below. The Modifications Group identified further potential benefits and attempted to quantify the level of each benefit that could be achieved (it must be noted that these are subjective estimates).

The main benefits were considered in the context of Supplier Volume Allocation (SVA) registered meters within a GSP Group and the group noted that the proposal gave no consideration to Central Volume Allocation meters.

The benefits accrue to the SVA Suppliers who have contracts with the actual LEGs but it is assumed that the LEGs in turn receive a share of the benefits through these contracts. The Modifications Group also considered that LEGs would be provided with more choice of parties with whom to contract if the proposed modification were agreed or if the same flexibility were to be provided in another way.

The benefits that arise from Licence Exemptable Generation result from the reduction of charges applicable to traded energy and from the advantages of increased flexibility in trading. These are identified as:

- Balancing Services Use of System (BSUoS) charges;
- Transmission Network Use of System (TNUoS) charges;
- Transmission Losses;
- Balancing and Settlement Code participant (BSCCo) charges;
- Residual Cash Flow (note this is a trade off with BSUoS charges)
- Ability to put Bid and Offers into the Balancing System; and
- Information Imbalance Charge (currently set to zero).

8 EXISTING RULES - OPTIONS FOR THE ALLOCATION OF DEMAND

This section describes the existing rules and processes that are available to SVA Suppliers. Section 10 will cover how these options realise the embedded benefits (in comparison to the Modification Proposal) and will describe the advantages/disadvantages of each.

8.1 Meter Volume Reallocation Notification (MVRN)

Metered Volume Reallocation Notifications (MVRNs) provide a facility to allow energy to be re-allocated. However, this method does not achieve the embedded benefits for Licence Exemptable Generation. This option was not considered any further by the Modification Group.

8.2 Change of Supplier Process

The 'change of supplier' process can be used to reallocate demand or Licence Exemptable Generation between two Suppliers (of the same Group of Companies). This would not be practical for large numbers of customers but could be used effectively to move small numbers of high volume half hourly customers to the other Supplier or to register some of the SVA Licence Exemptable Generation to the other Supplier.

By using this existing functionality it may be possible to achieve some or even all of the embedded benefits. However, the extent of the benefit realised would depend on the mix of metering systems and on their associated energy.

8.3 Meter Splitting

The Meter Splitting facility within the SVA systems allow the output from a Licence Exemptable Generator or the demand at a half hourly customer site to be split, according to a pre-determined algorithm, between any two Suppliers. This mechanism would allow some or all of the embedded benefits to be achieved. This process has the additional advantage that a different allocation can be made for each half hour provided that it is notified prior to trading.

9 MODIFICATION PROPOSAL OPTION AND ALTERNATIVE OPTIONS

The modification proposal identified a solution (BMU option) to realise the embedded benefits. The Modification considered 2 further options. This section describes each option.

9.1 Allocation to a BM Unit

The original proposal in Modification P7 was to allow all Suppliers within a Company Group to combine their demand in a GSP Group to a single BMU to gain the benefit of embedded generation where one Supplier had a 'negative demand' and the other a positive demand.

9.2 Allocation to a Trading Unit

The Initial Written Assessment on P7 identified a second option to achieve the full benefit of embedded generation but requiring a change to the Trading Arrangements. This was to allow different Suppliers within a Company Group to allocate their Supplier BMUs to a single Trading Unit.

9.3 Other Option - SVA Splitting

The IWS proposed a third option of introducing a new process into the SAA systems to allow demand from different Suppliers to be assigned to a single BMU. The Modifications Group considered and rejected this option as offering no advantage over the BMU or Trading Unit option.

10 BENEFITS OF EXISTING AND PROPOSED OPTION FOR ACHIEVING EMBEDDED BENEFITS

The specific benefits achievable by each option are identified in Table 1.

Table 1 Embedded Benefits of Different Options

	Elexon Charges	BSUoS	Residual Cash-flow	Losses	TNUoS	Bid and Offer	Information Imbalance
Use MVRN (existing rules)	No	No	No	No	Yes	No	Yes
Change of Supplier and Meter Splitting (existing rules)	Yes	Yes	Yes	Yes	Yes	No	No
Modification Proposal: BMU option	Yes	Yes	Yes	Yes	Yes	No	Yes
Trading Unit Option alternative option to Mod proposal	Yes	Yes	Yes	Yes	Yes	Yes	No

←-------Trade-off-------→

In an attempt to quantify the benefits, the Modifications Group made an estimate of each benefit in £ or pence per MWh. These are provided in Table 2.

Table 2 Estimated Value Achievable for each Embedded Benefit

	Elexon Charges	BSUoS	Residual Cash-flow	Losses	TNUoS	Bid and Offer	Information Imbalance
Estimated Benefit	5p per MWh	£1 per MWh	-£1 per MWh	25p per MWh	£0.20 to £2.80 per MWh depending on location	20p per MWh	£0 per MWh

←-------Trade-off-------→

11 FEASIBILITY OF OPTIONS

This section describes the feasibility/operability of the existing rules and processes and the options considered with the modification proposal.

11.1 Existing Rules - Change of Supplier

The Modifications Group discussed the feasibility of utilising the existing functionality of Change of Supplier to achieve the embedded benefits where there are two Suppliers within a Company Group in a GSP Group.

The Modifications Group considered that, although much or all of the benefits could be achieved by this process, there were practical commercial reasons why they would be difficult to use including objection by some customers to the contractual change.

11.2 Existing Rules - Meter Splitting

For the meter splitting process it was considered that the contractual situation with the Licence Exemptable Generator may be unfavourably complex for the LEG.

Secondly, there are currently few Half Hourly Data Collectors (HHDCs) who are accredited to carry out meter splitting. Any HHDCs who are requested to provide this service may require a payment for developing the systems to gain accreditation and provide the service.

Thirdly, the Group considered there was a risk with the Meter Splitting option as it had not been previously used although it has existed (for Non Pooled Generators only) since the introduction of the 1998 Trading Arrangements.

11.3 Modification Proposal - Allocation to a single BMU

The proposed option to combine two Suppliers demand in a single BMU was considered to provide a good business option but initial opinion was that there would need to be significant change to the central systems, to participant systems and to the legal framework.

11.4 Alternative Option - Allocation to a Trading Unit

The option to allow Suppliers to allocate their demand to a single Trading Unit was also considered a good business option in achieving the embedded benefits as it would require less change to the trading arrangements. However this option would have implications on National Grid's charging methodologies, which would need to be considered in parallel with this option. To achieve this would require the necessary consultation with the Connection Use of System Charging (CUSC) Users and approval of OFGEM.

11.5 Pros and Cons of Different Options

Table 3 presents the pros and cons of the various options to allow maximum benefit to be gained from embedded generation.

Table 3 – Pros and Cons of Options considered

Option	Pros	Cons
Existing Rules - Change of Supplier process	no change to BSC no change to systems no cost	not appropriate for large numbers of customers only of benefit for large (HH) customers considered cumbersome and limited
Existing Rules- Meter Splitting	no change to BSC no change to systems no cost	limited to splitting between 2 Suppliers not used yet operationally in the market (risk) only a few HHDCs accredited manual process with limited capability by SMRA seen as commercially unattractive to LEGs
Modification Proposal - Allocate multiple Suppliers demand to BM Unit	Increased flexibility Commercially more attractive	requires change to BSC and legal framework requires change to central systems impacts participating parties systems may impact NGC systems and charging may be costly to implement
Allocate multiple Suppliers demand to Trading Unit (Alternative Option to Modification Proposal)	Increased flexibility commercially more attractive	requires change to BSC and legal framework impacts participating parties systems impacts NGC systems and charging

12 THE NEED FOR FURTHER ASSESSMENT AND EVALUATION

The Modifications Group considered the existing functionality (change of Supplier and meter splitting) to be not sufficiently flexible or simple enough to operate commercially to achieve the embedded benefits where two Suppliers within a single company group were trading in a GSP Group.

It was considered that both the BMU option and Trading Unit would better facilitate achievement of the BSC objectives. Furthermore, the Trading Unit option was believed to be less complex, less disruptive to existing arrangements and systems and therefore less costly to implement than the BMU option. Further assessment was required of both options to establish the costs and associated impacts.

Therefore, the Modifications Group recommended to the Panel that:

1. Modification Proposal P7 be submitted to the Assessment stage to carry out a detailed assessment of the impact on central systems and processes, legal framework, impact on participants and of the cost of implementing each of the two proposed options - the Trading Unit option and the BMU option;
2. there were implications on National Grid's charging methodologies, which would need to be considered in parallel with these options.

13 REPRESENTATIONS BY PARTIES AND INTERESTED THIRD PARTIES

Eight responses were received. The majority view was that clarification and further definition was required. One respondent considered that for solutions involving changing the BSC, the benefits would be out-weighed by the cost of making changes.

Details of responses are provided in Annex 4.

ANNEX 1 – MODIFICATION PROPOSAL P7

Modification Proposal	**MP No: 7** *(mandatory by BSCCo)*

Title of Modification Proposal *(mandatory by proposer)***:**

"Allocation Of Supplier Demand To The Same BM Unit In A GSP Group For All Suppliers In The Same Company Group"

Submission Date *(mandatory by proposer)***:** 18 April 2001

Description of Proposed Modification *(mandatory by proposer)***:**

The modification proposes that the Supplier demand, for all supply companies in the same company group, can be allocated to the same BM Unit within a GSP Group.

Description of Issue or Defect that Modification Proposal Seeks to Address *(mandatory by proposer)***:**

For historical reasons many company groups have more than one licensed supply company. To maximise the embedded benefits associated with embedded license exempt generation, suppliers need a greater amount of demand in a GSP Group than embedded generation. With the increasing of the generation licence exemption limit and the expansion of CHP and renewable generation, there are more embedded generators expecting to realise these embedded benefits. These benefits could be better realised if all the demand for a company group could be allocated to the same BM Unit.

If the total supply take for a company group can be summed together in a GSP Group, the embedded benefits can be fully secured.

Impact on Code *(optional by proposer)***:**

Section K Clause 3 "Configuration and Registration of BM Units"

Section T Clause 4 "Settlement Calculations"

Impact on Core Industry Documents *(optional by proposer)***:**

Amendment to Balancing and Settlement Code as above

Impact on BSC Systems and Other Relevant Systems and Processes Used by Parties *(optional by proposer)***:**

Impact on other Configurable Items *(optional by proposer)***:**

Modification Proposal	**MP No: 7** *(mandatory by BSCCo)*

Justification for Proposed Modification with Reference to Applicable BSC Objectives *(mandatory by proposer)***:**

It is essential that embedded generation is able to fully capture the embedded benefit value from suppliers in order to maximise the value of their investment.

As many supply companies have demand in a GSP group on more than one supply licence, they are unable to consolidate their position and offer the full benefit share potential to renewable and CHP generators. Under current arrangements renewable and CHP generators are less likely to experience competitive pricing for their product as many suppliers will have insufficient demand on a single licence to offer a competitive benefit share.

This proposal will better facilitate competition in the embedded generation market and electricity supply in general.

Details of Proposer:

Name: Peter Bolitho
Organisation: Powergen
Telephone Number: 024 7642 5441
Email Address: peter.bolitho@pgen.com

Details of Proposer's Representative:

Name: Peter Bolitho
Organisation: Powergen
Telephone Number: 024 7642 5441
Email Address: peter.bolitho@pgen.com

Details of Representative's Alternate:

Name: Jane Butterfield
Organisation: Powergen
Telephone Number: 024 7642 4414
Email Address: jane.butterfield@pgen.com

Attachments: NO

If Yes, Title and No. of Pages of Each Attachment:

Modification Proposal P7 – supporting information

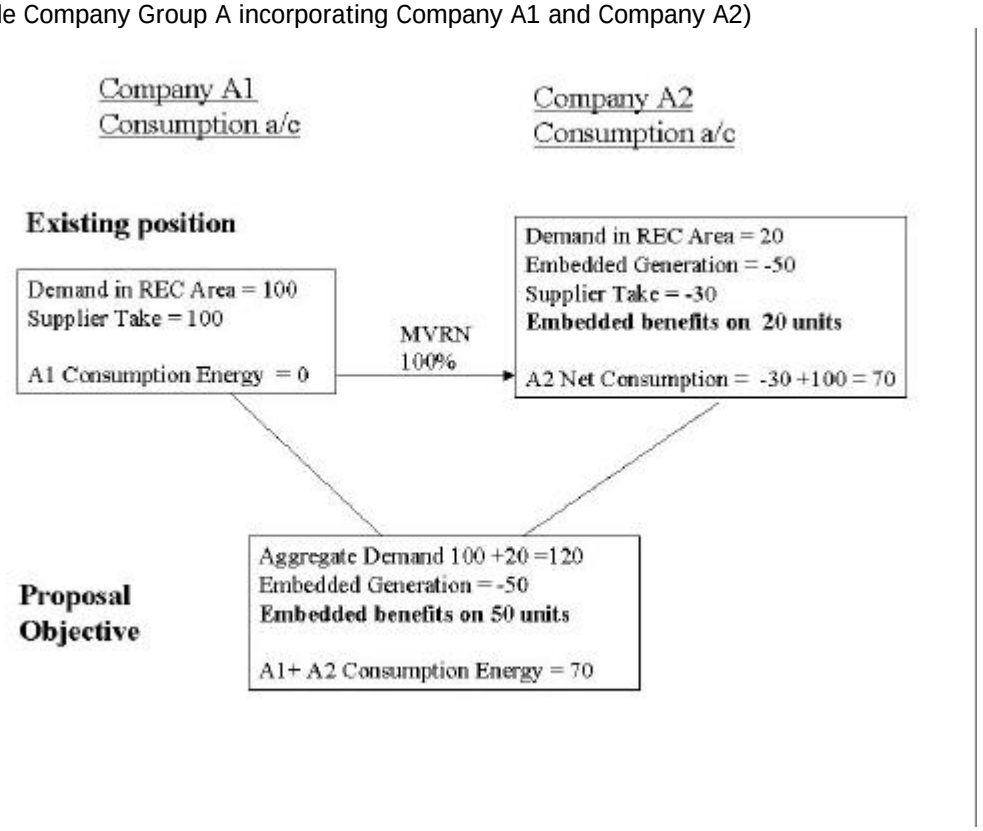
Allocation of Supplier Demand to the same BM Unit in a GSP Group for all Suppliers in the same Company Group.

Background

For historical and organisational reasons many company groups have more than one licensed supply company. Realisation of the full embedded benefits (**relief from Elexon, BSUoS charges, transmission losses and TNUoS charges**) can currently only be achieved if each supplier has individually more demand in a GSP Group than embedded generation in any given half hourly period.

The Proposal – explanation and clarification

(Example Company Group A incorporating Company A1 and Company A2)



Existing Position: Embedded benefits realised only on 20 units.
Proposal: Embedded benefits realised on 50 units.
Note there would be no change to energy balancing calculations.

Modification proposal P7 suggests aggregation for the purpose of realising embedded benefits at the "Balancing Mechanism Unit Allocated Volume / Metered Quantity stage", see the Section T 4.2.1 of the Balancing and Settlement Code.

$QM_{A2j} = - BMUADV_{A2j} - BMUADV_{A1j}$ …….

Alternative Options

The proposal essentially aggregates metered quantities at the BMU level. We are aware that an alternative could be to aggregate quantities at the Trading Unit level. In our view such an approach may not fully liberate all the embedded benefits.

Items avoided

	Elexon Charges	BSUoS	Residual Cash-flow	Losses	TNUoS
Current Position	No	No	No	No	No
BMU level (Proposal)	Yes	Yes	Yes	Yes	Yes
Trading Unit level	Yes	Yes	Yes	No	?

Trade-off

BSC Panel Decision

The primary objective of the modification proposal is to "remove impediments to full realisation of embedded benefits". The proposer requests that the proposal be sent to a Modification Group for Assessment as further definition at this stage may preclude consideration of alternative approaches. We would wish any such alternatives to be considered by the Modification Group at the Assessment stage and would suggest the modification follow the 'normal' timetable for non-urgent proposals.

Peter Bolitho
Powergen UK plc
peter.bolitho@pgen.com
3 May 2001

ANNEX 2 – SPECIFIC DETAILS OF MODIFICATION PROPOSAL TO BE CONSIDERED BY THE GROUP

(from the P7 Modification Group Terms of Reference, Version 1.0)

MODIFICATION PROPOSAL – P7 TO BE CONSIDERED BY THE GROUP

P7 - Allocation Of Supplier Demand To The Same BM Unit In A GSP Group For All Suppliers In The Same Company Group

POWERS OR ACTIVITIES REQUIRING THE PRIOR APPROVAL OF THE PANEL.

The following areas of the Group's powers or activities shall require the prior approval of the Panel:

None specified

INSTRUCTIONS, CLARIFICATION OR GUIDANCE REQUIRED FROM THE PANEL

In the first instance, the group's remit should be limited to considering the issues of what embedded benefits are sought by the proposal and whether these could be delivered by the existing BSC rules or the proposed modification.

ANNEX 3 – MODIFICATION GROUP MEMBERSHIP

Name	Organisation
Peter Bolitho (proposer)	Powergen
Ben Willis	Yorkshire Electricity
Maurice Smith	Campbell Carr
Brian Sequeira	BGT
Duncan Jack	St Clements Services
Jonathon Purdy	Seeboard (Distribution Business)
Richard Lavendar	Transmission Company
Nigel Brooks (attendee)	Transmission Company
Justin Andrews	ELEXON (Chairman)
Phil Clinch	ELEXON
Ben Jones	ELEXON (tech sec)

ANNEX 4 – REPRESENTATIONS BY PARTIES AND INTERESTED THIRD PARTIES

Responses from P7 Initial Written Assessment Consultation

Representations were received from the following parties:

No	Company	File Number	For	Against	Other
1.	Powergen	07_Def_001	✔		
2.	Scottish & Southern	07_Def_002			Further definition required
3.	GPU Power UK	07_Def_003			No Comment
4.	Seeboard	07_Def_004		✔	Considered benefits outweighed by costs
5.	Npower/Innogy	P7_Def_005			Further assessment required
6.	NGC	P7_Def_006			Considered proposal would favour large companies and has NGC charging implications
7.	TXU Europe	P7_Def_007			Further assessment required
8.	ScottishPower	P7_Def_008			Further definition required

P7_Def_001 - Powergen

From: Peter.Bolitho@pgen.com[SMTP:Peter.Bolitho@pgen.com]
Sent: 08 May 2001 09:32
To: Modifications@elexon.co.uk
Subject: P7 Definition Comments

The presentation given to the BSC Panel last on 3 May sets out the embedded benefits we were seeking to capture namely, Elexon charges, BSUoS, transmission losses and TNUoS charges. This may not be an exhaustive list.

As regards the mechanisms to meet (or partially meet) the objectives of the modification we believe this is likely to be best achieved by aggregating metered quatities at the BM Unit level. We are not at this stage convinced that full realisation of the stated benefits is achievable at the Trading Unit stage.

The embedded benefits are not achieved through 'MVRNing' nor do we believe it is organisationally practical to either transfer customers from one consumption account to another or transfer the embedded generation (or part of it) between accounts. The former would be difficult given the two consumption accounts may be separate legal entities and the latter is less than ideal as it would require multiple contracts between the embedded generator and a single company group and sharing meter arrangements.

Regards

Peter Bolitho

Powergen plc. 53 New Broad Street, London EC2M 1SL
Telephone +44 (0) 2476 42 4000
Fax +44 (0) 2476 42 5432

P7_Def_002

From: Beverley Grubb[SMTP:Beverley.Grubb@scottish-southern.co.uk]
Sent: 08 May 2001 10:18
To: Modifications@elexon.co.uk
Subject: P7 Definition Comments

BSC Modification Proposal P7: Allocation of Supplier Demand to the Same BMU in a GSP Group for all Suppliers in the Same Company Group.

Scottish and Southern Energy are unclear which embedded benefits this proposal seeks to maximise and how it is proposed this would be achieved in future. As such we agree the proposal should proceed to the Definition Procedure with a view to providing clarification and sufficient definition to allow Participants to carry out more detailed assessment and provide comment. We believe the Modification Group should focus on:

- clarifying which benefits the proposal seeks to maximise
- explain why this can not be achieved under current arrangements e.g through ECVN, MVRN, Trading Units
- determine the impact and changes required to deliver the benefits being sought

It is likely that this modification will run in parallel to the forthcoming review of the impact of the NETA on smaller generators. The Modification Group should take account of the terms of reference and findings of this group to ensure there is no conflict of interest, unnecessary duplication or inconsistencies.

Regards

Beverley Grubb
Market Development
Scottish and Southern Energy

P7_Def_003 – GPU Power UK

From: Gardener, Rachael[SMTP:rachael.gardener@gpupower.co.uk]
Sent: 14 May 2001 11:02
To: '<ELEXON-Modifications>'
Subject: Consultation on Consultation on Modification Proposal P7

Hello

GPU POWER UK would like to return a response of 'No Comment' to Consultation on Modification Proposal P7.

Thanks
Deborah Hayward
(on behalf of)
Rachael Gardener

Deregulation Control Group &
Disribution Support Office
GPU POWER.CO.UK

* 08457 353637 Ext: 09 - 3802
Fax: 01384 405177
Email: rachael.gardener@gpupower.co.uk &
dcg@gpupower.co.uk

P7_Def_004 - Seeboard

From: Fraser, Sue[SMTP:SFraser@seeboard.com]
Sent: 14 May 2001 14:47
To: 'modifications@elexon.co.uk'
Subject: P7 Definition Comments - SEEBOARD Response

Seeboard's response is as follows:

Seeboard understands the points raised by Powergen and recognises that a very small minority of BSC Parties could see some reductions in their costs if this change were to be implemented. However Seeboard believes the benefits are likely to be small in relation to the costs that might be incurred to make the necessary changes in central and other systems. Those parties affected can realise all of the embedded benefits by managing their businesses (perhaps by attracting new customers by sharing the embedded benefits) in such a way as to ensure that demand always exceeds embedded generation in all BMU's.

Seeboard is opposed to this modification because it expects costs to greatly exceed any benefits. For those companies involved other strategic options exist to realise the supposed "embedded benefits".

Sue Fraser
for Dave Morton
0190 328 3465

P7_Def_005 - NPower

Definition Comments on Modification Proposal P7

The objective of this proposal, to overcome the deficiencies of existing mechanisms within the BSC or restrictions on their use, is to be supported as consistent with Government policy and original NETA objectives to facilitate the embedded generation market. However, it is acknowledged that there may be other possible methods of overcoming these problems, which could be implemented either as an alternative or in addition to this, to open up a variety of routes to market for different types of embedded generation.

This is consistent with the following BSC (Panel) objectives:
"Promoting effective competition in the generation and supply of electricity"

"That the Code is given effect without undue discrimination between Parties or classes of Parties"

Detailed Comments
Issues Raised
Clarification of embedded benefits

The concept of 'embedded benefits' is fairly well understood in the industry, and is essentially the 'netting' of Transmission Losses and certain charges related to energy from embedded generation consumed within the same GSP Group. These include BSUOS, TNUOS (Triad) and BSCCo charges (smaller). (Note that Residual Cashflow Reallocation is effectively a negative benefit.)
Clarification of proposal

It needs to be clarified how the reallocation of energy to a different BM Unit would be carried out. As noted in Elexon's initial assessment, this could be:
* By modification of the SVAA software
* By combining BM Units in a Trading Unit (this might involve removing the seemingly arbitrary prohibition (in BSC Section K 4.4.1(a)) on combining an Exempt Export BM Unit with more than one Supplier BM Unit and/or extending the definition of Exempt Export BM Unit to include an exporting Additional BM Unit)
* By introducing another process into the SAA systems.

Existing mechanisms available, and associated issues

Re-registration using Change of Supplier process - As noted in Elexon's initial assessment, there are significant risks associated with the transfer of large numbers of customers using this process. In addition, there may be contractual and Licence issues under some circumstances. Under the current BSC Credit Cover arrangements, the transfer of a significant volume out of a BM Unit during a BSC Season may also result in an excessive and irrational call on the Party's Credit Cover facilities, since the DC for that BM Unit cannot be reduced below the maximum QMij that has already occurred.

MVRN - This mechanism effectively only transfers credited energy at the Energy Account level, and hence does not affect the balance of import and export energy at the BM Unit or Trading Unit level and hence the capacity to enable embedded benefits in respect of embedded generation.

Shared SVA Meter Arrangements - The use of this mechanism is restricted to Half Hourly Metering Systems only. It also involves additional processes.

CVA Exempt Export BM Unit (EEBMU) - There are various problems with this route to market for embedded generators:
a) If the embedded generator wishes to participate in the Balancing Mechanism, there are significant associated responsibilities (e.g. communications with the SO) which they may not wish to undertake themselves.
b) Licensed Suppliers are currently prevented (under BSCP68) from transferring the registration of sites (metering systems) from SVA to CVA, where they may be combined (as an EEBMU) to be part of a Trading Unit with a Supplier BM Unit. (This issue is already being addressed under BSCP40)
c) A large EEBMU may have difficulty finding a suitably large single Supplier BM Unit (other than that belonging to a (former) Host PES) with which to combine. BSC Section K 4.4.1 (a) currently prevents more than one Supplier BM Unit from being included in such a Trading Unit. Could this restriction be removed?

Additional BMU - In principle there is no reason why an embedded generator should not be able to be registered by a Licensed Supplier in an Additional BM Unit (in SMRS) and effectively be treated as an EEBMU. This would enable it both to participate in the Balancing Mechanism (in the absence of QFPN functionality in the market) and gain embedded benefits. This would require an extension of the definition of an Exempt Export BM Unit and/or removal of the restriction on combining more than one Supplier BM Unit in a Trading Unit. (This could be restricted to BM Units for which the Lead Parties are within the same company group).

QFPNs - This would be an alternative method of enabling the PN of an embedded generator to be segregated from the bulk demand in a Supplier's Base BM Unit. Without the QFPN functionality the cost of Non-Delivery Charges (due to the inherent unpredictability in bulk customer demand) would outweigh any possible benefit.

Other issues arising

Concerns were expressed in the drafting of the BSC about the perceived risks of allowing several Supplier BM Units within the same GSP Group to be combined in a Trading Unit. Given the general ability to 'net' embedded generation against demand registered by the same Supplier anywhere within a GSP Group (which has existed since the introduction of the 1998 Trading Arrangements) and the fact that total embedded generation within any GSP Group is likely to remain many times less than the total demand there for the foreseeable future, it is not clear what purpose is being served by the current prohibition on combining more than one Supplier BM Unit in a Trading Unit. Removing this restriction would appear to open up the market for embedded generation, by creating more potential buyers (Suppliers) through whom embedded benefits could be realised - particularly for larger and hence more material sites, in terms of realising the Government's CHP and Renewables targets.

Whether issues raised warrant further assessment & evaluation under Assessment Procedure

It appears that embedded generators currently have significant problems finding economic routes to market under NETA - an issue which is to be addressed by the review, recently announced by OFGEM, of the initial impact of NETA on smaller generators. In addition to the significant risks of Imbalance charges (which can be partly mitigated through 'consolidation'), there also seem to be problems with other mechanisms by which they can obtain embedded benefits to help redress 'economy of scale' and other disadvantages, which this Modification Proposal seeks to address.

Given Government policy objectives of promoting opportunities for CHP and Renewables (which account for a large share of embedded generation), this Modification Proposal is clearly worthy of further assessment and evaluation under the Assessment Procedure.

Richard Harrison
Innogy/Npower Limited

P7_Def_006 – NGC

Response from National Grid on Modification Proposal P7
Allocation of Supplier Demand to same BM Unit in a GSP Group

General Points

1. The main consequence of the modification being adopted in whichever form, is that the BSUoS/TNUoS charges will be reallocated between participants without reducing the total. Hence any savings achieved by one BSC Party will result in higher charges for other Participants. As larger companies will potentially benefit more from this proposal, there is a risk of discrimination in favour of the large corporate groups against separate independent companies.
If this occurred, it would contravene the BSC objective;

"promoting effective competition in the generation and supply of electricity...."

2. The BSC does not recognise alliances or coalitions between trading parties. If one BSC Party wished to be "linked" with another BSC Party, rules would have to be agreed as to which BSC Party's were eligible to be linked in this way and which were not.

Specific Points on Options

3. Option 2 - "Assigning BM Units to a common Trading Unit"

This option has implications on National Grid's charging methodologies and systems. At present for the Transmission Network Use of System (TNUoS) charges, the net charges for the Trading Unit are levied on the Lead Party of the single supplier BM Unit in the Trading Unit. If there were more than one supplier BM Unit in the same Trading Unit, new rules would be needed to assign the netting-off by Exempt Export BM Unit's output to each of the Suppliers.

Any change to National Grid's Charging methodologies must be approved by the following process;

First, NGC have to consult with CUSC parties for a period of at least 28 days on the proposed changes, unless the Authority decrees otherwise. A report will then be issued to the Authority by NGC setting out the terms of the modification, representations made during the consultation, any change to the terms of the modification, how the modification better meets the

relevant objectives and a timetable and date for implementation of the modification.

Unless the Authority has, within 28 days of the report being furnished to it, given a direction that the modification may not be made, NGC will make the modifications to the relevant Charging Methodology.

It needs to be established that the benefits of option 2 would justify such a modification and remain within the applicable objective of the BSC and our Transmission Licence;

"the efficient discharge by the Transmission Company of the obligations imposed under the Transmission Licence"

4. Option3 - "Allowing demand from different Suppliers to be assigned to a single BM Unit"

Option 1 and 3 may be interpreted a being very similar, however an alternative interpretation of option 3 may allow allocation from one GSP Group to another. Please confirm that option 3 only relates to demand and BM Units within the same GSP Group.

Other Options

As requested in the consultation we believe there are other existing options that may meet the objectives of the proposal

5. Suppliers merge into one company

This option is consistent with the BSC, which does not recognise the concept of "linked" BSC Party's and allows a BSC Party to retain multiple brands. Also, it has the advantage of requiring no change to the BSC or associated documents/systems.

6. National Grid Facilitated Triad Trading

The objectives of the proposal may be partially met by this option, which is already available. The Exempt Export BM Unit forms a Sole Trading Unit on its own and Triad Trades, via National Grid's facilitation with the Supplier(s) within the same GSP Group.

P7_Def_007 – TXU Europe

P007 Modification Group
Elexon Ltd
1 Triton Square
London

TXU Europe Energy Trading Ltd
Wherstead Park
Wherstead
Ipswich
Suffolk
IP9 2AQ

14th May 2001

P007 - Allocation of Supplier Demand to the same BM Unit in a GSP Group for all Suppliers in the Same Company Group

In response to the above Modifications Proposal our comments are set out below;

Assessment of the Issues Raised
In order to make an Assessment of the Issues raised by the Mod it is necessary to specify what the issues are. In our view the issue being raised can be phrased as "is the treatment of negative demand under the BSC appropriate"?

Our understanding of the treatment is that the BM Unit would be part of a delivering Trading Unit and would have the TLM+ applied to it - as would any other generation. The resulting positive value for QCE would contribute to the value of RCRC as any other generation would. Consequently it is not obvious that the BSC rules are "inappropriate" as regards these issues.

We note that the BSC Settlement data is used for the purposes of calculating certain NGC charges such as TNUoS and BSUoS. In respect of the former it is unclear how the BM Unit metered volume is treated. In respect of the latter the effect is to levy a charge on the adjusted metered volume. We agree that this may not be the most appropriate treatment in the circumstances described by the Proposer.

Desirability of Further Assessment
In view of the above we believe that the proposal would merit further Assessment.

Suggested Method of Resolution
The above could be resolved by treating the relevant BM Units of the related Supplier Ids as a Trading Unit - this would change the treatment of the

positive BM Unit metered volume from being a charge to the Supplier to being a Credit - assuming that the net Trading Unit position is Offtaking.

The simplest way of achieving this is by using the current rules that allow the Panel to specify a set of BM Units as being a Trading Unit via a Class 4 Trading Unit Application.

Philip Russell

P7_Def_008 – ScottishPower

From: NETA_SPOC[SMTP:NETA_SPOC@Scottishpower.plc.uk]
Sent: 14 May 2001 16:46
To: 'ELEXON-Modifications'
Subject: P7 Definition Comments from ScottishPower

ScottishPower has reviewed the documentation relating to Modification Proposal P7: Allocation of Supplier Demand to Same BM Unit in a GSP Group nd has the following comments to make.

We do not feel that PowerGen have been particularly clear in defining the embedded benefits" referred to in this Modification Proposal. Our comments below are based on the assumption that the benefits desired by PowerGen cover:

* Lower triad charges associated with TUoS;
* Lower BSUoS charges; and
* Lower share of transmission losses

If a supplier's demand BMU has a negative demand total, due to an excess of mbedded generation, he will not get the full value of the embedded benefits above because the negative demand total is likely to attract positive charges. The full embedded benefits cannot be obtained unless the supplier's demand is greater than the embedded generation total. So we agree that there is a genuine problem to be addressed for companies who don't have sufficient demand under any single licence.

One issue is whether separate legal/licensed entities within an overall company group are forced to have separate consumption accounts, and therefore separate demand BMUs, under the BSC. If so, Powergen's proposal in this Modification Proposal would not achieve the benefits described above. MVRNs will reallocate demand between consumption accounts but that does not address the volume related embedded benefits issue, as the volumes concerned are those calculated against each consumption account prior to any MVRN.

From a legal perspective, if a group has 2 or more legal/licensed entities, it is our understanding that they will have to sign the BSC separately (as ScottishPower and Manweb did) and that they will then be required to have separate energy accounts and separate supplier demand BMUs. They can adopt the MVRN approach for imbalances but again this doesn't address the embedded benefits issue.

Also, there may be a problem if only one of the licensed subsidiaries signs the contract to buy the energy from the generator. Would it be

legally-acceptable to allocate generation to the consumption of a licensed supplier with whom the generator has no formal contract? Note that it is permissible for an embedded generator to sell its output to two different suppliers (meter splitting). Perhaps this is the solution that should be adopted by groups in this position, if necessary by promoting a change so that a generator can split its output across more than 2 different suppliers. In this way they could spread the generation across a number of different demand BMUs and retain, in aggregate, the embedded benefits.

In summary, we would like to see a clearer definition of the benefits PowerGen wish to achieve by raising this proposal before being able to comment further.

I hope you find these comments helpful and please do not hesitate to contact me if you wish to discuss any of the points raised above further.

Regards,

Steve Field
Calanais for ScottishPower
Design Authority, Deregulation Services
Int - 700 2313 Ext - 0141 568 2313
http://asg.scottishpower.plc.uk (Intranet)