**70/011**

# ASSESSMENT REPORT for Modification Proposal P139
# Removal of Trading Unit restriction on Interconnector Users

**Prepared by: Settlement Standing Modification Group (SSMG)**

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This document has been distributed in accordance with Section F2.1.10[1] of the Balancing and Settlement Code.

## RECOMMENDATIONS

The SSMG invites the BSC Panel to;

- **AGREE that Proposed Modification P139 should be made;**
- **AGREE a provisional Implementation Date for Proposed Modification P139 of:**
  - **30 June 2004, should the Authority determination be received before 19 March 2004; or**
  - **Should an Authority determination be received on or after this date, but prior to 20 July 2004 then the Implementation Date should be 3 November 2004.**
- **AGREE that Modification Proposal P139 be submitted to the Report Phase; and**
- **AGREE that the draft Modification Report be issued for consultation and submitted to the Panel Meeting of 15 January 2004.**



[1] The current version of the Balancing and Settlement Code (the 'Code') can be found at www.elexon.co.uk/ta/bscrel_docs/bsc_code.html

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## SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

As far as BSCCo has been able to assess the following parties/documents have been identified as being potentially impacted by Modification Proposal P139.

| Parties | | Sections of the BSC | | Code Subsidiary Documents | |
|---|---|---|---|---|---|
| Suppliers | ☐ | A | ☐ | BSC Procedures | ■ |
| Generators | ☐ | B | ☐ | Codes of Practice | ☐ |
| Licence Exemptable Generators | ☐ | C | ☐ | BSC Service Descriptions | ☐ |
| Transmission Company | ☐ | D | ☐ | Service Lines | ☐ |
| Interconnectors | ■ | E | ☐ | Data Catalogues | ☐ |
| Distribution System Operators | ☐ | F | ☐ | Communication Requirements Documents | ☐ |
| **Party Agents** | | G | ☐ | Reporting Catalogue | ☐ |
| Data Aggregators | ☐ | H | ☐ | MIDS | ☐ |
| Data Collectors | ☐ | J | ☐ | **Core Industry Documents** | |
| Meter Operator Agents | ☐ | K | ■ | Grid Code | ☐ |
| ECVNA | ☐ | L | ☐ | Supplemental Agreements | ☐ |
| MVRNA | ☐ | M | ☐ | Ancillary Services Agreements | ☐ |
| **BSC Agents** | | N | ☐ | Master Registration Agreement | ☐ |
| SAA | ☐ | O | ☐ | Data Transfer Services Agreement | ☐ |
| FAA | ☐ | P | ☐ | British Grid Systems Agreement | ☐ |
| BMRA | ☐ | Q | ☐ | Use of Interconnector Agreement | ■ |
| ECVAA | ☐ | R | ☐ | Settlement Agreement for Scotland | ☐ |
| CDCA | ☐ | S | ☐ | Distribution Codes | ☐ |
| TAA | ☐ | T | ☐ | Statement of Charging Methodology | ■ |
| CRA | ☐ | U | ☐ | Distribution Connection Agreements | ☐ |
| Teleswitch Agent | ☐ | V | ☐ | **BSCCo** | |
| SVAA | ☐ | W | ☐ | Internal Working Procedures | ■ |
| BSC Auditor | ☐ | X | ☐ | **Other Documents** | |
| Profile Administrator | ☐ | | | Transmission Licence | ☐ |
| Certification Agent | ☐ | | | | |
| MIDP | ☐ | | | | |
| TFLA | ☐ | | | | |
| **Other Agents** | | | | | |
| SMRA | ☐ | | | | |
| Data Transmission Provider | ☐ | | | | |

| | |
|---|---|
| **Estimated cost for progressing P139 though Modification Procedures** | **£ 10,000 + 50 ELEXON man days** |
| **Cost of implementing Proposed Modification:** | |
| **Change specific** | £0 + 35 ELEXON Man days |
| **Operational/maintenance** | £0 + 40 ELEXON Man days |
| **Total Cost of Implementation:** | **£ 0+75 ELEXON man days** |

# 1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

## 1.1 Modification Proposal

Modification Proposal P139 was raised by EDF Trading Ltd on 21 August 2003 (reference 1). P139 seeks to lift the restriction on Interconnector BM Units forming multiple BM Unit Trading Units within England and Wales. Currently Section K 5.7.1 of the Balancing and Settlement Code (the 'Code') explicitly excludes Interconnector BM Units from forming Trading Units:

*"An Interconnector BM Unit may not belong to a Trading Unit other than a Sole Trading Unit."*

P139 was raised to allow Interconnector Users to realise Trading Unit benefits. These benefits occur as several forms of charging[2] are levied on a net basis for BM Units forming part of a Trading Unit. For example, if 1000 MW export was contracted on the Interconnector from France to UK and at the same time 500 MW import was contracted from UK to France, there would currently be charges made on the gross value of 1500 MW. Under P139, an Interconnector Trading Unit could be formed, the charges would then be due for those Interconnector BM Units (participating in the Trading Unit) in such a way as if the charges were based on the 'net' value. In the example above the charges would correspond to 500 MW, equivalent to the actual metered Interconnector flow and the amount 'seen' by the System Operator.

The Proposer believes that, by removing the restriction on Interconnector BM Units forming Trading Units, an unnecessary and unfair financial burden on existing and new Interconnector Users would be removed. It is also suggested that P139 would provide Interconnector Users with similar opportunities, for the formation of a Trading Unit, as afforded to other Trading Parties in England and Wales operating from the same site. As such, P139 would remove discrimination in this context, facilitate more efficient and competitive trading activity between neighbouring systems and remove the potential for duplicate charging of BSUoS charges. Therefore, the Proposer believes implementation of P139 would better facilitate achievement of Applicable BSC Objectives (a), (c) and (d).

*"a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;*

*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."*

ELEXON presented an Initial Written Assessment (IWA) (reference 2) to the Balancing & Settlement Code Panel ('the Panel') at its meeting on 11 September 2003. The Panel agreed with the recommendation in the IWA that P139 be submitted to a three month Assessment Procedure to be carried out by the Settlement Standing Modification Group (SSMG).

The SSMG met four times during the Assessment Procedure and P139 was issued for industry consultation in order to support the group's assessment against the Applicable BSC Objectives.

The Assessment Procedure Terms of Reference considered by the SSMG are as follows:

- how the principle of superposition, and other aspects of the arrangements for Interconnectors, can be reconciled with the proposal to allow Interconnector BM Units to form Trading Units as required;
- the changes required to Central Systems and associated costs;

[2] The different charges and benefits afforded Trading Units are considered in detail within the body of this report.

- the charging mechanisms in Europe; and
- whether the perceived defect is contained within the BSC.

## 1.2 Proposed Modification

If approved, Proposed Modification P139 would introduce the following changes:

- Remove the current restriction (Section K 5.7.1) preventing Interconnector BM Units from belonging to a Trading Unit other than a sole Trading Unit. Interconnector BM Units would then be able to form Trading Units with other Interconnector BM Units on the same Interconnector.
- Introduce a new Class of Trading Unit (Annex K-2) for Interconnector BM Units.
- Ensure the Production/ Consumption status (P/C Status) of Interconnector BM Units would not change by virtue of belonging to a Trading Unit.

## 1.3 Principles of Trading Units

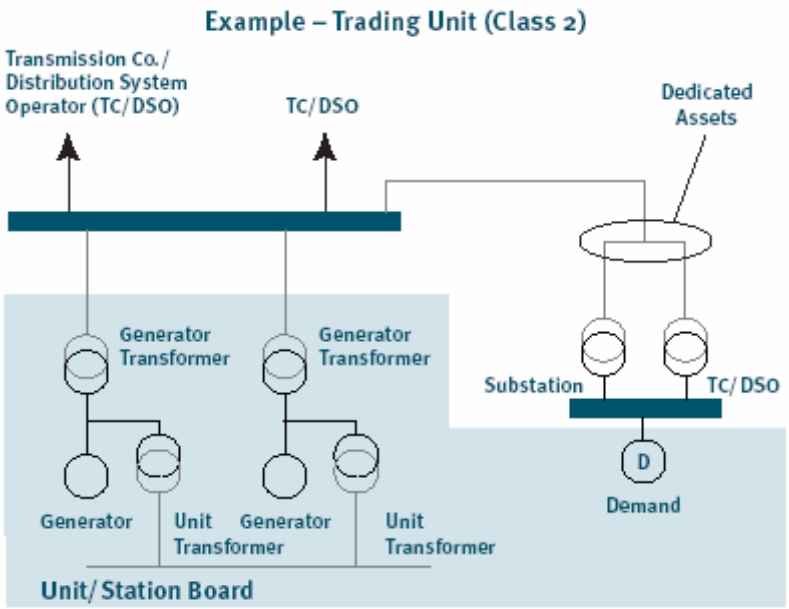
This section outlines the principles of Trading Unit status and gives an overview of the benefits afforded to BM Units which comprise part of a non-Sole Trading Unit. This information is provided in order that the results of allowing Interconnector BM Units to form multiple BM Unit Trading Units can be understood.

### 1.3.1 Trading Unit overview

A Trading Unit is a group of BM Units that are electrically close to each other on the transmission system. Because of this proximity, they are afforded "net" treatment, meaning that the overall commercial effect is the same as if demand occurring within the group were satisfied directly by generation within the group (or vice versa), with only the net of the two being traded over the system.

The criteria for a group of BM Units to belong to a Trading Unit are set down in Annex K-2 of the Code. Currently, there are five classes of Trading Unit which require that the BM Units either: are located within the same Power Station; are connected by assets solely meant for that purpose (as per the example in Diagram 1); share the same connections assets to the transmission or distribution system; are Supplier BM Units located in the same GSP Group; or, in special cases, are agreed to be a Trading Unit by the BSC Panel.

**Diagram 1:**




Trading Parties wishing to form non-Sole Trading Units must do so in accordance with Balancing and Settlement Code Procedure (BSCP) 31 (reference 5) and comply with one of the above criteria. There is no requirement for the BM Units in a Trading Unit to all belong to the same Trading Party, but all of the Lead Parties of the BM Units must be party to the application. The benefits of Trading Unit treatment

will go to one or more Lead Parties, as described below, and it is then a matter for the Parties to agree how the benefits are shared.

A BM Unit that is not in a Trading Unit with other BM Units defaults to being a sole Trading Unit.

### 1.3.2 Treatment of BM Units

BM Units are treated differently depending on whether they are deemed to be Production or Consumption and whether they are in Trading Units that are delivering to, or offtaking from, the System. In particular, for BM Units which are Sole Trading Units:

- Each BM Unit has a Relevant Capacity, which indicates whether the BM Unit predominately has the capacity to export to or import from the System, and hence is classified as a Production BM Unit or a Consumption BM Unit respectively. A BM Unit is normally classified as Production if the Generation Capacity (GC) plus the Demand Capacity (DC) is greater than zero; in this case the Relevant Capacity is the Generation Capacity. Otherwise, the Relevant Capacity is the Demand Capacity, and the BM Unit would normally be classified as Consumption;
- Credited Energy Volumes (QCE) for Production BM Units accrue to Production Energy Accounts, whereas the Credited Energy Volumes for Consumption BM Units accrue to Consumption Energy Accounts;
- Different Transmission Losses are applied to BM Units which are exporting or importing in any given Settlement Period (i.e. in Trading Units that are delivering or offtaking, respectively), such that the output from exporting BM Units is scaled down (typically by around 1%, equivalent to a TLM of 0.99) and the demand of importing BM Units is scaled up (typically by in the region of 1%, equivalent to a TLM of 1.01);
- The Residual Cashflow Reallocation Cashflow (RCRC) is pro-rated on the magnitude of the Credited Energy Volume of each BM Unit, i.e. the Credited Energy Volume of an exporting BM Unit, or the Credited Energy Volume of an importing BM Unit multiplied (because it is a negative quantity) by minus one; and
- A significant element of BSCCo Costs is charged proportionately (at the rate of about £0.10/MWh) on the Credited Energy Volumes of exporting BM Units and on the Credited Energy Volumes of off-taking BM Units multiplied by minus one.

Consequently, for two BM Units, one a Production BM Unit exporting to the System and the other a Consumption BM Unit importing from the System, which are at the same location but which are not in a Trading Unit, the Lead Party or Lead Parties would:

- be exposed to imbalance charges on the relevant Production Energy account and the relevant Consumption Energy Account;
- be deemed, through the scaling up of energy imported and scaling down of energy exported, to be responsible for Transmission Losses in respect of each BM Unit; and
- be charged BSCCo charges on the energy exported and the energy imported by each of the two BM Units.

### 1.3.3 Net treatment of BM Units

Net treatment is achieved by according all BM Units in a Trading Unit the same treatment.

Typically, for a Trading Unit, the sum of the Relevant Capacities for all the BM Units is taken to indicate whether the BM Units in the Trading Unit predominately have the capacity, overall, to export or import. All of the BM Units, irrespective of whether on their own they would have been Production or

Consumption, are then classified as Production or Consumption according to whether the sum of the Relevant Capacities is greater or less than zero. For example the output of a BM Unit, that predominately has the capacity to import, but which is in a Trading Unit whose BM Units overall have the capacity to export, will accrue to the Production (rather than Consumption) Energy Account of the BM Unit's Lead Party.

In addition, if, in any given Settlement Period, a BM Unit is importing when the BM Units in the Trading Unit to which it belongs are, in aggregate, exporting (this being described in the Code as a "delivering" Trading Unit, whilst a Trading Unit whose BM Units are, in aggregate, importing is said to be "offtaking") the effects of net charging will be observed as follows:

- **Net Transmission Loss Charging**

The allocation of Transmission Losses across all BM Units is described in Section T 2 of the Code. The Code determines two distinct Transmission Loss Multipliers (TLMj) for each Settlement Period. One of these multipliers is generally less than 1 and is applied to BM Unit Metered Volumes associated with delivering Trading Units. The other is generally greater than 1 and is applied to BM Unit Metered Volumes associated with offtaking Trading Units.

If an exporting BM Unit is in an offtaking Trading Unit, the Metered Volume of the Interconnector BM Unit will be multiplied by a factor greater than 1, resulting in an increase in its Metered Volume. In effect, it will have been credited with the losses it is deemed to have saved and will be treated accordingly in the settlement process.

Ignoring any minor effect of $TLM_{ij}$ values on other net benefits, the direct Transmission Loss benefit (in MWh terms) realised by an exporting BM Unit in an offtaking Trading Unit is the difference between the Transmission Loss Multiplier calculated for delivering Trading Units and that calculated for offtaking Trading Units, multiplied by the BM Unit Metered Volume. The converse is true for an importing BM Unit in a delivering Trading Unit.

It should be noted that the resulting Transmission Loss credit accrues to the BSC Party who owns the Energy Account to which the metered energy is credited. This Party need not be the Lead Party of the relevant BM Unit, for example it may be a subsidiary Party to a Metered Volume Reallocation Notification.

Approved Modification P82 "Introduction of Zonal Transmission Losses on an Average Basis", will be implemented on the 1 April 2004. In the case of Zonal Transmission Losses the same underlying principal remains, a BM Unit in a particular TLF zone will be adjusted by a TLM appropriate for that zone. Depending on the TLF zone and whether a particular BM Unit is importing or exporting this may serve as either an advantage or disadvantage (this is in contrast to the current arrangements whereby the application of Transmission Losses is always a disadvantage). For example, a BM Unit in the south may have its exports increased (a benefit) and a BM Unit in the north may have its exports decreased (a disadvantage). Furthermore, a BM Unit in the south may have its imports increased (a disadvantage) and a BM Unit in the north may have its imports decreased (an advantage). As a consequence, when Trading Units are formed and loss adjustments are made to the net flow in each Settlement Period this may constitute either a benefit, or a disadvantage, dependent on the TLF zone in which the Trading Unit resides. This is because, output from exporting BM Units may either be scaled up (a benefit) or down (a disadvantage) and the demand of importing BM Units may be scaled down (a benefit) or up (a disadvantage). Hence, under P82, the formation of a Trading Unit may, in some cases, result in the netting off of a Transmission Loss benefit.

- **Net BSCCo Charging**

Certain BSCCo charges are pro-rated on the basis of Credited Energy Volumes. Other charges, known as Specified BSC Charges, are levied on a per BM Unit or per Trading Party basis. A General Funding Share ($FSG_{pm}$) is calculated for each Party to aggregate these different charges.

Funding Shares are described in Annex D-1 of the Code. A BM Unit contributes to an Energy Account holder's General Funding Share ($FSG_{pm}$) through the monthly Main Funding Share ($FSM_{pm}$). The sign of the contribution made by a BM Unit to the Party's funding share depends on whether it is part of a delivering or offtaking Trading Unit. An exporting BM Unit will contribute negatively to the funding share if it is in an offtaking Trading Unit but positively if it is in a delivering Trading Unit. Hence, an exporting BM Unit will realise a benefit for the Party (whose energy account is credited) by joining an offtaking Trading Unit. The monetary value of the benefit will depend on BSCCo costs which form the basis of the Monthly Net Main Cost ($MNM_{Cm}$). If we estimate BSCCo's relevant costs to be £60 million annually and also estimate annual energy consumption in England and Wales to be approximately 300 TWh, then we can roughly say that BSCCo charges recovered through $FSM_{pm}$ should be the same order of magnitude as £0.10 / MWh[3]. The benefit realised by an exporting BM Unit in an offtaking Trading Unit is twice this value and hence roughly £0.20 / MWh (an equal benefit would be realised by an importing BM Unit in a delivering Trading Unit).

It should be emphasised that the resulting BSCCo credit or charge accrues to the Party who owns the Energy Account to which the metered energy of the Production BM Unit is credited. This Party need not be the Lead Party of the Production BM Unit, for example it may be a subsidiary Party to a Metered Volume Reallocation Notification.

- **Net RCRC Payments**

RCRC is a payment or charge to Trading Parties arising as a consequence of imbalance charges paid by Trading Parties. Thus, a consequence of netting the exposure of the BM Units within a Trading Unit to imbalance charges is the netting of RCRC payments. This means that, in the example of the BM Unit that is importing in a delivering Trading Unit, the Credited Energy Volume is counted negatively in the allocation of RCRC, and typically the Lead Party and any Subsidiary Parties will pay, rather than be paid, RCRC (and the same is the case for a BM Unit exporting in an offtaking Trading Unit). Or, on occasions where the total RCRC payments are negative the Lead Party of a BM Unit that is importing in a delivering Trading Unit will be paid RCRC where the majority of Parties will be required to pay.

- **Net Use of System Charging**

Other benefits afforded to Trading Units include adjustments to National Grid Company (NGC) charges for the use of its system, as described in NGC's Statement of the Use of System Charging Methodology, which is published pursuant to NGC's Transmission Licence. Both categories of Use of System charges, i.e. Balancing Services Use of System (BSUoS) and Transmission Network Use of System (TNUoS), may be modified by Trading Units, with only connection charges unaffected.

BSUoS charges are levied in accordance with the Transmission Company's 'Statement of the Use of System Charging Methodology'. According to Chapter 9 of the Statement, the Lead Party of each BM Unit is liable to pay (or receive) BSUoS charges for a given Settlement Period based on the period BM Unit Metered Volume. To calculate the charge, a Balancing Services Price ($BSP_j$) must be determined for each MWh transported over the Transmission System during the given Settlement Period. $BSP_j$ is then multiplied by the BM Unit Metered Volume (adjusted for Transmission Losses) to give a charge for the Lead Party of each BM Unit. Most importantly:

[3] BSCCo Charge = Annual BSCCo Costs / (Annual Production + Annual Consumption) = Annual BSCCo Cost/(2*Consumption)= £60 Million/ 600 Million MWh = £0.10

- This charge is positive if the BM Unit conforms to the behaviour of its Trading Unit. In other words, there is a payment to the Transmission Company from the Lead Party when the BM Unit is exporting (generating) and the Trading Unit in which it resides is in delivery mode, or when the BM Unit is importing (consuming) and the Trading Unit in which it resides is in offtake mode.
- The charge is negative if the BM Unit acts contrary to the behaviour of its Trading Unit. In other words, there is a payment to the BSC Party from the Transmission Company when the BM Unit is exporting (generating) and the Trading Unit in which it resides is offtaking, or when the BM Unit is importing (consuming) and the Trading Unit in which it resides is delivering.

The treatment of TNUoS charges is less straightforward, with station loads on power stations being netted off generation, but other demand not being netted off generation unless the generation has an 'Export Limiting Modification'. The Lead Party of a half-hourly metered BM Unit that is importing during NGC's 'Triad' periods will pay TNUoS demand changes only on the net import, if any, of the whole Trading Unit; there are no TNUoS demand charges or payments for the exporting BM Units. Different rules apply for non half-hourly metered demand. Reference must be made to the Statement of the Use of System Charging Methodology for details. It should be noted that any change to the methodology of use of System Charging is outside the governance of the BSC.

### 1.3.4 Summary

BM Units that are electrically close to each other on the Transmission System are allowed to form Trading Units, BM Units forming part of such Trading Unit are afforded "net" treatment. As a consequence of net treatment, benefits are potentially accrued in the following areas:

- Transmission Losses;
- BSCCo Charges;
- RCRC payments;
- BSUoS; and
- TNUoS.

Within the remainder of this document the previously detailed principles of Trading Unit status are considered in the context of Interconnector BM Units. Potential criteria for the formation of Trading Units containing Interconnector BM Units, the effects of Trading Unit status on Interconnector BM Units and the potential benefits available to Interconnector BM Units are considered.

## 1.4 Issues raised by the Proposed Modification

### 1.4.1 Criteria for Interconnector Trading Units

The SSMG has discussed potential criteria for the formation of Trading Units containing Interconnector BM Units.

Currently section K 5.7.1 of the Code explicitly excludes Interconnector BM Units from forming Trading Units:

*"An Interconnector BM Unit may not belong to a Trading Unit other than a Sole Trading Unit."*

In its simplest form P139 would remove paragraph K 5.7.1, such that Interconnector BM Units would be eligible to join Trading Units. Interconnector BM Units would then be assessed against the existing criteria for the formation of Trading Units. However, assessment by the SSMG indicates that, in the case of Trading Units including Interconnector BM Units a new set of criteria would be required.

BM Units are allowed to form Trading Units due to their proximity on the Transmission System. The existing criteria for the formation of Trading Units allow any BM Units connected by contiguous or dedicated assets to form Trading Units. Applying the existing criteria to Interconnector BM Units raises an issue in the case of electrically remote Interconnector circuits, as illustrated in the example below.

Diagram 2.

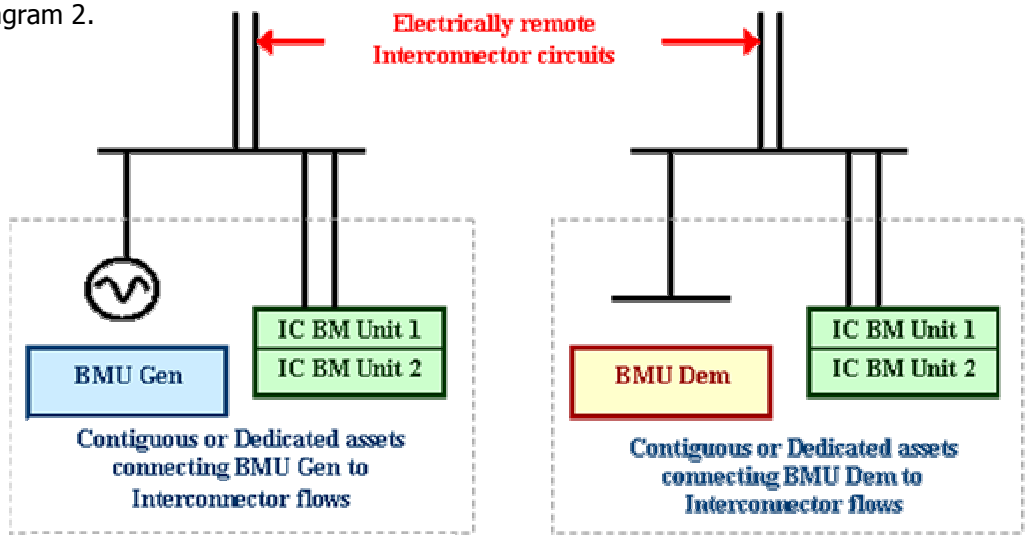



Diagram 2 illustrates a multi circuit Interconnector. A multi circuit Interconnector may have a number of Boundary Points on the Total System, however the Interconnector BM Units associated with such an Interconnector are all identical in that the deemed metered volumes all have the same notional share of energy transferred over each of the individual circuits which together constitute that Interconnector (i.e. there is only one pair of Interconnector BM Units associated with each Interconnector User). The Scottish Interconnector is an example of a multi-circuit Interconnector Circuit.

In Diagram 2 above:

- BMU Gen and BMU Dem are not linked by contiguous or dedicated assets and can not directly form a Trading Unit;
- BMU Gen and Interconnector BMUs 1 and 2 are linked by contiguous or dedicated assets and could form a Trading Unit;
- BMU Dem and Interconnector BMUs 1 and 2 are linked by contiguous or dedicated assets and could form a Trading Unit;
- Interconnector BMUs 1 and 2 are linked by contiguous or dedicated assets and could form a Trading Unit; and
- Hence, BMU Gen, BMU Dem and Interconnector BMUs 1 and 2 could form a Trading Unit.

As demonstrated in the example, by forming a Trading Unit including Interconnector BM Units, BM Units which are not linked by contiguous or dedicated assets would be able to join the same Trading Unit. This appears to undermine the principle of Trading Unit status. Furthermore, an element of discrimination is involved as electrically remote BM Units, not connected by contiguous or dedicated assets and not connected to Interconnector BM Units by contiguous or dedicated assets, would not be able to form Trading Units. Whereas, electrically remote BM Units, not connected by contiguous or dedicated assets, but connected to Interconnector BM Units associated with electrically remote Interconnector circuits by contiguous or dedicated assets, would be able to form Trading Units.

In order to address these issues the following approaches were considered by the SSMG (please note that a common assumption for all approaches is that Interconnector BM Units cannot enter Trading Units with BM Units trading across different Interconnectors, such that French and Scottish Interconnector BM Units may never share the same Trading Unit):

**1) Limit Interconnector BM Units to forming Trading Units with other Interconnector BM Units on the same Interconnector.**

This approach addresses the issue whereby, by forming a Trading Unit with Interconnector BM Units, BM Units which are not linked by contiguous or dedicated assets would be able to form a Trading Unit. Although the opportunities to form Trading Units would not be maximised, as non-Interconnector BM Units would be excluded, this option does keep close to the Trading Unit principles and maintains consistency between different Interconnectors.

**2) Limit Interconnector BM Units to forming Trading Units with other Interconnector BM Units where flows onto or off the Interconnector are from contiguous or dedicated assets.**

This approach addresses the issue whereby, by forming a Trading Unit with Interconnector BM Units, BM Units which are not linked by contiguous or dedicated assets would be able to form a Trading Unit. It would also prevent electrically remote Interconnector BM Units forming Trading Units. However, this approach restricts the trading options available to all BM Units, as Interconnector BM Units and non-Interconnector BM Units connected via contiguous or dedicated assets would not be eligible to form Trading Units with each other. Furthermore, it would mean that some BM Units linked by contiguous or dedicated assets would be able to form Trading Units whereas others would not. As such, this approach could be seen to introduce an undesirable inconsistency into the arrangements for cross border transfers.

**3) Limit Interconnector BM Units to forming Trading Units with other Interconnector BM Units where flows onto or off the Interconnector are from contiguous or dedicated assets and other BM Units linked by contiguous or dedicated assets.**

This approach addresses the issue where, by forming a Trading Unit with Interconnector BM Units, BM Units which are not linked by contiguous or dedicated assets would be able to form a Trading Unit. It would also prevent electrically remote Interconnector BM Units forming Trading Units. Furthermore, in comparison to options 1 and 2, this approach would maximise the opportunities for Interconnector Users to form Trading Units and would potentially be more closely aligned with the criteria for all BM Units and the fundamental principles behind formation of Trading Units. However, under this approach some Interconnector BM Units would be eligible to form Trading Units whilst others would not. As such, this approach could be seen to introduce an undesirable inconsistency into the arrangements for cross border transfers.

SSMG also gave some consideration to the possibility of establishing a special status of Trading Unit for Interconnectors, on the basis that only the BSUoS benefits would accrue, but not the other benefits, such as treatment of losses, adjustments to P/C status and BSCCo charges. However, the Group considered that this would lead to further complexity and still created discrimination between BM Units, depending on whether they were Interconnector BM Units, or not.

The SSMG considered, in detail, the potential criteria outlined above and responses to industry impact assessment (section 6). It was the view of the SSMG that both approach 1 and approach 3 offered potential benefits. Approach 1 provided identical opportunities for the formation of Trading Units to all Interconnector BM Units, thus avoiding the introduction of an inconsistency into the arrangements for cross border transfers. Approach 3 would maximise the opportunities for Interconnectors to form Trading Units in comparison to the other options by allowing Interconnectors to form Trading Units with non-Interconnector BM Units.

On balance, it was the majority view of the SSMG that it was preferable to maintain consistency between Interconnectors rather than to allow Interconnectors to form Trading Units with non-Interconnector BM Units. Therefore, on balance the majority of the SSMG agreed approach 1 represented the most equitable solution, as a new Class of Trading Unit would be established which would allow Interconnector BM Units to form Trading Units only with other Interconnector BM Units on the same Interconnector.

Contrary to the majority view of the SSMG, one member held the view that it would not be appropriate for Interconnector BM Units associated with Interconnector circuits, where flows onto or off of the Interconnector are at geographically separated points, to form a Trading Unit (as would be the case under approach 1 for multi circuit Interconnectors). It was the view of this SSMG member that such an approach would set a precedent in terms of allowing assets which connect to the Transmission System at points geographically separated from each other to be treated as one site for Trading Unit purposes. As such, this SSMG member did not support criteria which would allow Interconnector BM Units associated with multi circuit Interconnectors to form Trading Units. In response to this argument, another SSMG member presented the view that, in the case of Interconnectors, the meaning of dedicated and contiguous could be considered different to that for other BM Units. It was the view of this second SSMG member that, for Interconnector BM Units associated with multi circuit Interconnectors, the connection assets are dedicated and contiguous, as demonstrated by the fact that one BM Unit is split equally among the separate connection points. As such, there is no reason why the BM Units on a multi circuit Interconnector should not form a Trading Unit. This view was supported via responses to industry consultation (see section 6), where the view was expressed that, as the BM Unit is the smallest unit of trade under the BSC and that Interconnector BM Units can, by definition, relate to an Interconnector which has a number of Boundary Points, that such Interconnector BM Units cannot be considered to be remote from themselves and such Interconnector BM Units should be able to form Interconnector Trading Units.

In conclusion, the SSMG agreed by majority that, under P139:

- **A new Class of Trading Unit would be created; and**
- **This new Class of Trading Unit would allow Interconnector BM Units to form Trading Units only with other Interconnector BM Units on the same Interconnector.**

### 1.4.2 Impact on P/C Status

Section K3.5 sets out the rules for classifying BM Units within Trading Units as Production or Consumption BM Units. This classification is referred to as the 'P/C Status' of the BM Unit.

Typically, this determination is made based upon the sum of the Relevant Capacities of BM Units in each Trading Unit. The Relevant Capacity is GC where GC plus DC is greater than zero, otherwise it is DC. However, this is not the case for Interconnector Users which are assigned a pair of BM Units, one of which is designated as Production and the other Consumption.

Typically, the P/C Status of a BM Unit is re-determined on each occasion on which the BM Unit either: joins or leaves a Trading Unit; is within a Trading Unit to which a BM Unit joins or leaves; or upon any change to GC/DC values of any of the BM Units which belong to that Trading Unit.

As previously outlined, current Trading Unit rules preclude Interconnector BM Units forming part of non-Sole BM Unit Trading Units. Additionally, Section K5.6 specifies that for Production Interconnector BM Units the DC determined shall at all times be zero, and for Consumption Interconnector BM Units the GC determined shall at all times be zero. The combination of these provisions means that the P/C Status of an Interconnector BM Unit cannot currently change.

The SSMG considered whether it would be appropriate for the P/C status of individual Interconnector BM Units to change to that of the Trading Unit.

Currently Interconnector Users are assigned a pair of BM Units by the Central Registration Agent (CRA), with one designated as Production and one as Consumption. These BM Units are then utilised to separate imports and exports across the Interconnector. Maintaining the P/C status of Interconnector BM Units belonging to Trading Units would avoid the requirement to change the way these Interconnector BM Unit pairs are used.

The SSMG noted that, if the P/C status of Interconnector BM Units were set by the Trading Unit to which they belonged, the P/C status, and thereby the Energy Account to which volumes were assigned, for such BM Units could conceivably change on a seasonal basis. This would introduce a new potential risk for Interconnector Users.

The net benefit afforded to Trading Units as a result of the P/C status of BM Units is facilitation of imbalance risk management. It was agreed by the SSMG that, in the case of Interconnector Users this particular benefit was negligible.

BSC Agent impact assessment, Annex 5, indicated that a solution whereby the P/C status of Interconnector BM Units would not change by virtue of belonging to a non-Sole Trading Unit could be implemented at zero cost.

In light of the above, the SSMG agreed that:

- **The P/C status of Interconnector BM Units should not change by virtue of belonging to a Trading Unit other than a Sole Trading Unit.**

### 1.4.3 Impact on Superposition

Interconnector arrangements may allow for the deemed metered amounts (the metered volumes allocated to individual Interconnector BM Units) in one direction to sum to more than the capacity of the given Interconnector, so long as the overall net deemed metered amount is within the capacity of the Interconnector. These arrangements are outside the scope of the BSC. However, the BSC does currently require there to be two BM Units per Interconnector User; one solely for exports and one solely for imports. Furthermore, the BSC also limits an Interconnector User to only export, or import at any spot time (Section Q 3.2.3-C: (iii)).

The SSMG considered whether allowing non-sole Trading Units on an Interconnector could impact on these arrangements. The SSMG concluded that, if the P/C status of Interconnector BM Units did not change by virtue of belonging to a non-Sole Trading Unit, there would be no impact on the way Interconnector BM Unit pairs are utilised to separate import and export. As such there would be no impact on the arrangements which facilitate superposition across Interconnectors.

### 1.4.4 European Directive

The SSMG considered whether Proposed Modification P139 would be consistent with the European Directive on access to the network for cross-border exchanges in electricity (Reference 7). The Directive is not specific as to whether charges should be levied on a net or gross basis and, as such, does not preclude net trading of Interconnector BM Units as proposed under P139. However, the SSMG recognised that the Directive requires consistency in the charging methodology for cross border transfers originating from different countries. In light of this, it was the view of the SSMG that the criteria for formation of Trading Units containing Interconnector BM Units should provide equal opportunities to Interconnector Users at different Interconnectors, see section 1.4.1.

### 1.4.5 Scope

The SSMG considered whether the defect identified within the Modification Proposal was within the scope of the BSC.

The majority of the SSMG was of the view that there are potential benefits associated with Trading Unit status and the assertion that Interconnector Users do not have equitable access to these benefits due to the current drafting of the Code is an issue to be considered under the scope of the Balancing and Settlement arrangements. The SSMG recognised that the main net benefit that was of materiality to Interconnector Users would be BSUoS charging, the methodology of which is outside the scope of the Code. However, the SSMG recognised that P139 was not proposing changes to this methodology. Furthermore, the Proposer clarified that gross charging of BSUoS for Interconnector Users had been raised as an issue outside the Code and had been refereed back to the BSC forum.

In summary, it was the majority view of the SSMG that the fact that Interconnector Users can not form Trading Units and thereby realise the benefits of net trading is an issue that should be considered under the Balancing and Settlement arrangements. Contrary to this majority, one SSMG member held the view that, if there is an inappropriate or inconsistent methodology for calculating BSUoS liabilities for Interconnector Users, the issue should be resolved outside of the BSC. It was the view of this SSMG member that the other benefits delivered by the proposal were negligible and would not better facilitate competition in the generation and supply of electricity.

## 1.5 Analysis of net benefits

The SSMG conducted analysis of the net benefits relating to the treatment of Trading Units in the context of Interconnector BM Units (section 1.3.3 outlines describes how these benefits are realised).

The SSMG noted that a Trading Unit is a set of BM Units that are physically proximate to each other. The main practical reason for forming a Trading Unit is to realise net benefits. Because of their physical proximity, BM Units in a Trading Unit are afforded net treatment, meaning that the overall commercial effect is the same as if demand occurring within the Trading Unit were satisfied directly by generation on site, with only the net of the two being traded over the system.

The SSMG determined that for the purposes of the P139 Assessment Procedure, the material net benefits were:

- BSUoS Benefits
- Transmission Loss Benefits
- BSCCo Charge Benefits

The SSMG agreed that any effects relating to TNUoS charges should not be considered within the scope of the assessment, as TNUoS charging for Interconnector Users is already dealt with on a net basis under the Transmission Company's Statement of Use of System Charges. It was also noted that TNUoS and BSUoS charges are outside the vires of the BSC and that Ofgem is responsible for ensuring the consistency of NETA charging across different governance arrangements. The SSMG agreed that the change of P/C status that enables netting for imbalance purposes should not occur for Interconnector BM Units (section 1.4.2) and therefore is not applicable in this instance.

### 1.5.1 Summary of Trading Unit Benefits

Table A provides a summary of the beneficiary of each relevant net benefit.

Table A – Summary of Beneficiaries

| BENEFIT | BENEFICIARY |
|---|---|
| BSUoS Benefit | Lead Party of Interconnector BM Unit behaving contrary to the overall behaviour of the Trading unit. |
| BSCCo Charge Benefit | Party holding the Energy Account |
| Transmission Loss Benefit/ Disadvantage | Party holding the Energy Account |

### 1.5.2 Worked Examples

**Assumptions**

The following quantitative assumptions hold in all the examples described below. These values indicate order of magnitude and are not intended to be precisely realistic.

- BSUoS benefit = £1.20 / MWh

The BSUoS benefit is calculated simply as twice the value of the BSP which is assumed here to be around £0.60 / MWh.

- Transmission Loss benefit = £0.40 / MWh (2% of £20 energy price per MWh)

If the TLMs are 1.01 for offtaking Trading Units and 0.99 for delivering Trading Units, the transmission loss benefit[4] will be 0.02 (=1.01 – 0.99) of metered energy. This corresponds to 2% which gives a monetary value of £0.40 per MWh when multiplied by an estimated energy price of £20 per MWh. It should be emphasised that the Transmission Loss benefit accrues to the BSC Party who owns the Energy Account to which the metered energy is credited. This Party need not be the Lead Party of the Interconnector BM Unit.

- BSCCo Charge benefit = £0.20 / MWh (twice the estimated £0.1/MWh BSCCo charge, see section 1.3.3)

As noted above, this benefit depends on BSCCo's costs and on aggregate energy flows on the Transmission System on a monthly basis. In general, the benefit increases with higher expenses and lower energy flows. It should also be noted that the BSCCo benefit accrues to the BSC Party who owns the Energy Account to which the metered energy is credited. This Party need not be the Lead Party of the Interconnector BM Unit.

**Examples**

The left-hand side of each diagram in the following examples shows certain BM Units and indicates whether or not they form a Trading Unit. Each BM Unit is assigned a number showing its Half Hourly (HH) metered energy in MWh for a Settlement Period, positive volumes indicate generation. It is further assumed that the maximum magnitudes of $QM_{ij}$ submitted by the Lead Party for the BSC Season for each BM Unit, are synonymous with these Half Hourly metered energy volumes (i.e. the GC/DC values of the BM Units are reflected in the HH metered energy for the Settlement Period).

[4] As outlined in section 3.4.2, under P82, Zonal Transmission Losses apply such that this benefit may actually be negative (i.e. a disadvantage).

The arrows directed towards Trading Party Production or Consumption Account reflect whether the energy volumes attributed to the BM Unit will accrue to the Production or Consumption Account of the Lead Party. The determination of whether volumes accrue to a Production or a Consumption account is unaffected by whether the BM Units shown are in common or disparate ownership.

It is deemed that no net benefits are realised in Example 1. This configuration will be used as a baseline against which to assess net benefits afforded Interconnector BM Units within a Trading Unit. Example 2 represents a scenario where Interconnector BM Units can form Trading Units with other BM Units on the same Interconnector (as under Proposed Modification P139).

**Example 1**

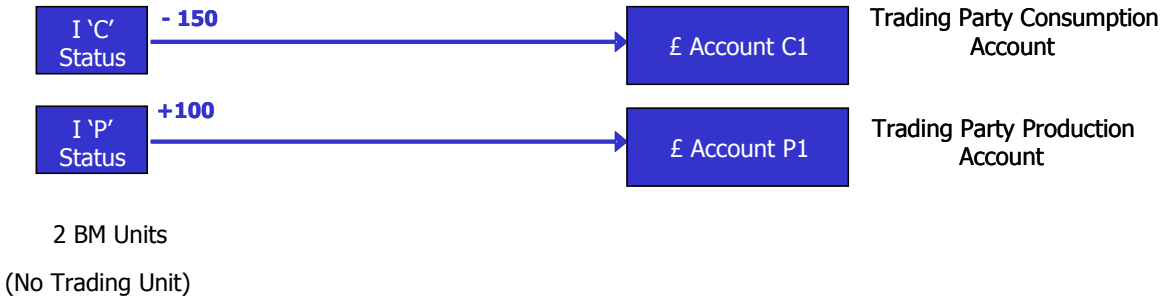



**Table 1:**

| BM Unit | P/C Status | Delivering/ Off taking | BSUoS Charge | BSUoS Benefit | TLM | TLM Benefit | BSCCo Charge | BSCCo Benefit |
|---|---|---|---|---|---|---|---|---|
| Interconnector 'C' Status | C | Off Taking (150) | Debit of £90 | None | Consumption +1% (-£30) | None | Debit £15 | None |
| Interconnector 'P' Status | P | Delivering (100) | Debit of £60 | None | Production -1% (-£20) | None | Debit £10 | None |

Analysis: Both BM Units will be paying BSUoS charges at £0.60/ MWh per Settlement Period. As a result Interconnector 'C' Status will pay £90, Interconnector 'P' Status will pay £60, resulting in a total payment of £150. Similarly, both BM Units will be incurring Transmission Losses and BSCCo Charges for the Energy Account. For example, the energy from the Production Interconnector BM Unit will be multiplied by the delivering TLM and get reduced by 1% (as the TLM is 0.99). Given a metered volume of 100 MWh at an assumed price of £20/ MWh, this yields a transmission loss cost of £20 for the Production Interconnector BM Unit. Similarly, the BSCCo Charge attributable to the Production Interconnector BM Unit at £0.10/ MWh results in a £10 debit for the given Settlement Period.

**Example 2**

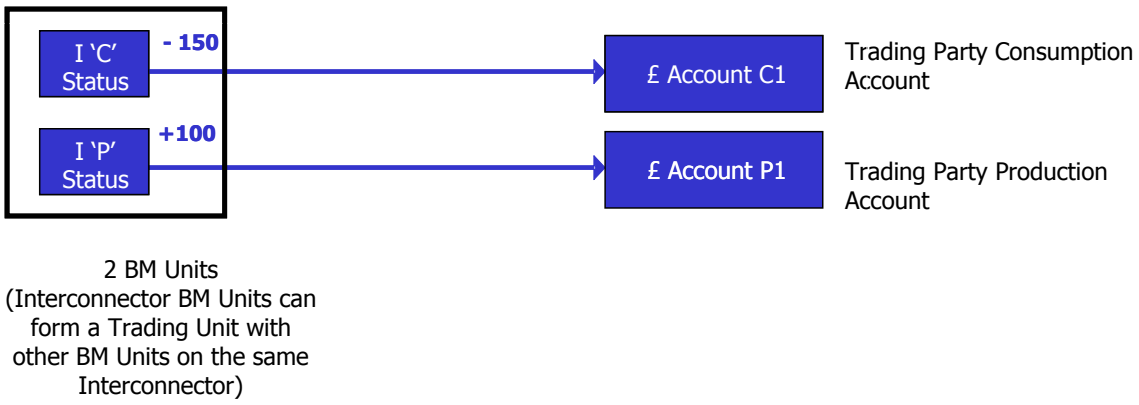


**Table 2:**

| BM Unit | P/C Status | Delivering/ Off taking | BSUoS Charge | BSUoS Benefit | TLM | TLM Benefit | BSCCo Charge | BSCCo Benefit |
|---|---|---|---|---|---|---|---|---|
| Interconnector 'C' Status | C | Off Taking (150) | Debit of £90 | None | Consumption +1% (-£30) | None | Debit £15 | None |
| Interconnector 'P' Status | P | Off Taking (-100) | Credit of £60 | £120 | Production +1% (£20) | +2% (£40) | Credit £10 | £20 |

Analysis: The BSUoS, TLM and BSCCo benefits are found by multiplying the relevant benefit rate by the 100 MWh of energy produced by the Interconnector Production BM Unit. It must again be emphasised that these figures represent the benefit and not the total charge for the relevant Party.

To facilitate comparison with Example 1, note that instead of incurring a BSUoS £60 charge, the Production Interconnector BM Unit will incur a £60 BSUoS credit, realising a benefit of £120 in total for the Energy Account during this Settlement Period. Similarly, instead of a £10 BSCCo Charge debit, the Production Interconnector BM Unit will incur a £10 BSCCo Charge credit, realising a benefit of £20 in total for the Energy Account during this Settlement Period. Additionally, instead of incurring £20 in Transmission Losses, the Production Interconnector BM Unit will be credited with them, realising a benefit of £40 in total for the Energy Account during this Settlement Period.

# 2 ASSESSMENT OF HOW THE PROPOSED MODIFICATION WILL BETTER FACILITATE THE APPLICABLE BSC OBJECTIVES

On the basis of the foregoing the SSMG has concluded the following:

- The potential to enable Interconnector BM Units to form non-sole Trading Units represents a material issue;
- The current limitations, disallowing non-Sole Trading Units for Interconnector BM Units, are discriminatory;
- Simply removing the current limitation may create an ambiguity in the interpretation of electrical proximity and possibly introduce another instance of discrimination between Interconnector BM Units and other BM Unit types. Hence, Applicable BSC Objective (c)[5] may not be better achieved;
- Limiting Interconnector Trading Units to Interconnector BM Units on the same Interconnector, although restricting trading options to some extent, would alleviate the current restriction. Furthermore, it would avoid introducing an inconsistency into the arrangements for cross border transfers and would facilitate better achievement of Applicable BSC Objective (c)[5];
- Creating a new treatment for Interconnector Trading Units would introduce additional complexity, although, in the light of the materiality considerations, would deliver the main benefit and, thus, remove any material element of discrimination. Hence, Applicable BSC Objective (c)[5] would be better achieved, but Applicable BSC Objective (d)[6] would not be better achieved (due to increased complexity associated with the introduction of a new Class of Trading Unit);
- The SSMG agreed that P139 would not influence achievement of Applicable BSC Objective (a)[7].

On balance, it was the majority view of the SSMG that P139 would:

- **By restricting Interconnector BM Units to forming Trading Units with Interconnector BM Units on the same Interconnector, consistency would be maintained in the arrangements for cross border transfers, whilst the basic concept of the Trading Unit would be retained and minimal impact imposed. As such Proposed Modification P139 would, overall, better facilitate achievement of the Applicable BSC Objectives (in particular Applicable BSC Objective c) and should be made.**

Contrary to the majority view of the group, one SSMG member held the view that, if there is an inappropriate or inconsistent methodology for calculating BSUoS liabilities for Interconnector Users, the issue should be resolved outside of the BSC. It was the view of this SSMG member that the other benefits delivered by the proposal were negligible and would not better facilitate competition in the generation and supply of electricity.

Contrary to the majority view of the group, one SSMG member held the view that, it would not be appropriate for Interconnector BM Units associated with Interconnector circuits where flows onto or off of the Interconnector are at geographically separated points to form Trading Units (as would be the case under Proposed Modification P139 for multi circuit Interconnectors). As such, this SSMG member,

[5] (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.
[6] (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.
[7] (a) The efficient discharge by the licensee of the obligations imposed upon it by this licence.

whilst offering support for removal of the Trading Unit restriction for some Interconnectors, did not believe Proposed Modification P139 (which would allow all Interconnector BM Units to form Trading Units with other BM Units on the same Interconnector) would better facilitate achievement of the Applicable BSC Objectives.

## 2.1 Alternative Modification

No Alternative Modification P139 was developed. An alternative solution, whereby all Interconnector BM Units on the same Interconnector would be mandated as forming a Trading Unit, was considered by the SSMG. However, the SSMG agreed that mandating Trading Unit status to Interconnector BM Units was undesirable. Furthermore, the apportionment of net benefits via the underlying contractual arrangements between Trading Unit members helps to facilitate competition. If Trading Unit status were mandated this underlying contracting may not take place. Therefore, the SSMG agreed that this alternative solution would not better facilitate the Applicable BSC Objectives as compared to the Proposed Modification, and as such did not constitute an Alternative Modification.

# 3 RATIONALE FOR MODIFICATION GROUP'S RECOMMENDATIONS TO THE PANEL

This section summarises the rationale for the SSMG recommendations, further detail can be found in the body of this report.

## 3.1 Proposed Modification

As detailed in section 2, the majority view of the SSMG was that by restricting Interconnector BM Units to forming Trading Units with Interconnector BM Units on the same Interconnector, consistency would be maintained in the arrangements for cross border transfers, whilst the basic concept of the Trading Unit would be retained and minimal impact imposed. As such Proposed Modification P139 would better facilitate achievement of the Applicable BSC Objectives (in particular Applicable BSC Objective c) and should be made.

## 3.2 Implementation Dates

In accordance with responses to impact assessment, the recommended Implementation Date for Proposed Modification P139 allows a 14 week lead time following an Authority decision in order to progress the required documentation and process changes through the industry review and approval process. Furthermore, the recommended Implementation Dates are consistent with the CVA Release strategy as follows:

- 30 June 2004, should the Authority determination be received before 19 March 2004; or
- should an Authority determination be received on or after this date, but prior to 20 July 2004 then the Implementation Date should be 3 November 2004.

# 4 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment has been undertaken in respect of BSC Systems and Parties Systems and Processes and the following have been identified as potentially impacted by the Proposed Modification.

## 4.1 BSCCo

## 4.2 Impact on BSCCo Systems and Processes

### 4.2.1 Service Delivery: Support registration of Interconnector Trading Units

The ELEXON, Customer Services Management team, may need to amend Local Working Instructions (LWIs) to reflect changed registration procedures for Trading Units.

Appropriate mechanisms for internal and external education of stakeholders regarding the new principles and practices introduced under P139 may also be necessary.

An estimated total effort of 40 ELEXON man-days, in the first year post implementation, would be required to support the registration of Interconnector BM Units.

### 4.2.2 Change Delivery: Requirement to support implementation

The ELEXON, CVA Programme, would be required to support the implementation of process and documentation changes necessary to give effect to P139.

BSCP31 would be updated and there would be associated industry review and walkthrough testing. The Business Process Model would need to be amended to reflect updated processes for registering a Trading Unit.

The estimated effort in order to implement these changes is 35 ELEXON man-days. An approximate lead time of 14 weeks would be required to progress the changes through the industry review and approval process.

## 4.3 BSC Systems

BSC Agent impact assessment of Proposed Modification P139 was commissioned by the SSMG and no impact on BSC Systems was identified. The results of BSC Agent impact assessment are included in Annex 5, it should be noted that the Proposed Modification P139 is represented by option 1.

## 4.4 Parties and Party Agents

### 4.4.1 Ability to form multiple BM Unit Interconnector Trading Units

Parties should note that the intent of P139 is to lift the current restriction on Interconnector BM Units forming multiple BM Unit Trading Units. As Interconnector BM Units would be limited to forming non-Sole Trading Units with BM Units on the same Interconnector this would only directly affect Interconnector Users.

The P/C Status of an Interconnector BM Unit electing to form part of a multiple BM Unit Trading Unit would not change. Therefore, P139 would not impact on the approach whereby a pair of Interconnector BM Units is used in order to separate imports and exports.

### 4.4.2 BSUoS Charging

As indicated in the Transmission Company analysis of P139, currently, in accordance with section 9.3 of The Statement of the Use of System Charging Methodology, BM Units that are registered in Trading

Units will be charged BSUoS charges on a net Trading Unit basis. Thus, if P139 were approved, this would apply to Interconnector BMU's. The Transmission Company's initial analysis of BSUoS charges from 2002/03 indicated that over an annual period, this could potentially reduce Interconnector BM Unit's share of BSUoS charges by approximately £1M (as the charging base will be reduced), and this will be shared among all users.

# 5 IMPACT ON CODE AND DOCUMENTATION

## 5.1 Balancing and Settlement Code

### 5.1.1 Section K: Classification and Registration of BM Units

Restriction on Interconnector BM Units forming non-Sole Trading Units removed.

### 5.1.2 Annex K-2:

New class of Trading Unit introduced for Interconnector BM Units on the same Interconnector.

## 5.2 Code Subsidiary Documents

### 5.2.1 BSCP31: 'Registration of Trading Units'

Amendments would be required to reference Interconnector Trading Units and the criteria for their creation. New forms would be necessary as information required for the application may differ to that required for the current Trading Unit Classes.

## 5.3 Impact on Core Industry Documents and supporting arrangements

An assessment of the potential impact on Core industry Document was conducted and no impact was identified. Potential interactions with the Use of Interconnector Agreements and the Statement of the Use of System Charging Methodology were identified during initial assessment of P139. Further assessment of the potential impact on these documents did not identify a requirement for amendment.

# 6 SUMMARY OF CONSULTATIONS

Responses to industry consultation on P139 are summarised below (11 responses, representing 46 Parties and 2 Non-Parties, were received).

| **Q.1. Do you believe Proposed Modification P139 better facilitates the achievement of the Applicable BSC Objectives?** | |
|---|---|
| Yes | 7 |
| No | 3 |
| No Comment/ Neutral | 1 |
| **Q.2. Do you agree with the removal of the current limitation on Interconnector BM Units?** | |
| Yes | 9 |
| No | 1 |
| No Comment/ Neutral | 1 |

There was majority support for the removal of the current limitation on Interconnector BM Units forming non-Sole Trading Units and the rationale of the SSMG. However, several respondents indicated

that their view as to whether P139 would better facilitate the Applicable BSC Objectives was dependent on the criteria for formation of Trading Units containing Interconnector BM Units (see questions 3 and 4 below).

**Arguments Expressed not in support of the Proposed Modification:**

- Several respondents supported the Proposed Modification in principle but did not support the criteria originally proposed by the SSMG for the formation of Trading Units containing Interconnector BM Units, whereby the assets connecting the Boundary Points of the associated Interconnector and the other BM Units in the Trading Units are contiguous or dedicated (see questions 3 and 4 below).
- One response indicated that, as Interconnector flows are volatile and can change size and direction regularly, it would be difficult for most Interconnector Users to form stable enough Trading Units to take advantage of the change. Therefore, the Proposed Modification would give a benefit to large Interconnector Users and hinder competition. The SSMG did not support the rationale provided by this respondent. It was the view of the SSMG that P139 would provide equal opportunities to all Interconnector Users to form Trading Units and that large Interconnector Users would not receive any competitive advantage in comparison to smaller Interconnector Users as a result of the change. Furthermore, the SSMG noted that the net benefits of Trading Unit status would typically accrue to the Interconnector BM Unit trading in the opposite direction to the overall flow across the Interconnector. It was the view of the SSMG that, in general, these Interconnector BM Units would be more likely to be associated with smaller Interconnector Users (as larger users tend to dictate the overall flow across the Interconnector). As such, smaller Interconnector User would be in an equitable position when contracting with other Interconnector Users for the apportionment of net benefits.
- One respondent presented the view that if there is an inappropriate or inconsistent methodology for calculating BSUoS liabilities for Interconnector Users it should be resolved outside of the BSC. It was the view of the respondent that the other benefits delivered by the proposal were negligible and would not better facilitate competition in the generation and supply of electricity. The Proposer clarified that the BSUoS issue highlighted in P139 had been raised outside the Code and had been referred back to the BSC forum. The majority of the SSMG agreed that the fact that Interconnectors can not form Trading Units and thereby realise the benefits of net trading is an issue within the scope of the Balancing and Settlement arrangements. Contrary to this majority view, one SSMG supported the rationale of this respondent.

| **Q.3. Do you agree that the establishment of a new class of Trading Unit (where the assets connecting the Boundary Points of the associated Interconnector and the other BM Units in the Trading Units are contiguous or dedicated) will better achieve the Applicable BSC Objectives?** | |
|---|---|
| Yes | 4 |
| No | 5 |
| No Comment/ Neutral | 2 |

**Q.4. If 'no' to Question No. 3, which other description of a Trading Unit should be adopted?**

The majority of respondents supported the creation of a new Class of Trading Unit with specific criteria to address Interconnector BM Units. However, several respondents did not support the criteria originally proposed (NB: these criteria were revised by the SSMG on consideration of the responses to industry consultation on P139) by the SSMG (where the assets connecting the Boundary Points of the associated Interconnector and the other BM Units in the Trading Units are contiguous or dedicated).

Several Respondents indicated that the criteria for formation of Trading Units containing Interconnector BM Units should allow Interconnector BM Units on all Interconnectors to form Trading Units. This could be done by limiting Interconnector Trading Units to BM Units on the same Interconnector. Alternatively, a hybrid of options 1 and 3, outlined in the consultation document, could be used. On consideration of the consultation responses, the SSMG agreed with the view that all Interconnector BM Units should be provided with the opportunity to form Trading Units with other BM Units on the same Interconnector. In particular the SSMG supported the view that this approach would ensure consistency in the arrangements for cross border transfers. The rationale of the SSMG is contained in section 1.4.1.

**Q.5. Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?**

An alternative solution suggested by one respondent, whereby all Interconnector BM Units on the same Interconnector would be mandated as forming a Trading Unit, was considered by the SSMG. As outlined in section 2.1, the SSMG agreed that this option did not better facilitate the applicable BSC Objectives as compared to the proposed and should not form Alternative Modification P139.

**Q.6. Does P139 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?**

One respondent indicate that the group should consider further the "EU dimension". The respondent clarified that this comment was referring to the requirement to ensure consistency in the arrangements for cross border transfers i.e. that the opportunities to form Trading Units should be afforded equally to all Interconnectors. The requirement for consistency in cross border transfers was considered by the SSMG when determining the criteria for formation of Trading Units containing Interconnector BM Units as outlined in section 1.4.1.

**Q.7. Further Comments**

One respondent indicted that, if it is the intention of the SSMG that the removal of the restriction on Interconnector BM Units forming Trading Units should not apply to the Scottish Interconnector then this should be stated clearly in the Assessment Report and subsequent Modification Report. It should be noted that, the criteria for formation of Trading Units containing Interconnector BM Units initially proposed by the SSMG, prior to industry consultation, would have excluded the Scottish Interconnector. However, the final criteria agreed by the SSMG, on review of the responses to industry consultation, would allow all Interconnector BM Units on the same Interconnector to form a Trading Unit. Therefore, for the avoidance of doubt, the criteria for the formation of Trading Units containing Interconnector BM Units that would be introduced under Proposed Modification P139 **would <u>not</u> exclude the Scottish Interconnector.**

# 7 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

This section summarises the results of Transmission Company analysis of Proposed Modification P139.

The Transmission Company indicated that the Proposed Modification would not impact its ability to discharge its obligations under the Transmission Licence. Furthermore, the Transmission Company indicated the view that Proposed Modification P139 would better facilitate achievement of Applicable BSC Objective c) 'promoting effective competition in the generation and supply of electricity' by allowing Interconnector Parties to form Trading Units in the same way as other classes of user who are electrically close.

Limited potential impact on Transmission Systems and processes as a result of Proposed Modification P139 was identified and as such minimal costs were highlighted.

The Transmission Company noted references to Transmission Company charges (specifically BSUoS and TNUoS) in the consultation document. It was the view of the Transmission Company that it would not be appropriate to consider these issues when assessing whether the Proposed Modification better facilitates the Applicable BSC Objectives, as Transmission Company charges are outside of the vires of the BSC. However, the Transmission Company highlighted that currently, in accordance with section 9.3 of The Statement of the Use of System Charging Methodology, BM Units that are registered in Trading Units will be charged BSUoS charges on a net Trading Unit basis. Thus, if P139 were approved, this would apply to Interconnector BMU's. The Transmission Company's initial analysis of BSUoS charges from 2002/03 indicated that over an annual period, this could potentially reduce Interconnector BM Unit's share of BSUoS charges by approximately £1M (as the charging base will be reduced), and this will be shared among all users.

# 8 DOCUMENT CONTROL

## 8.1 Authorities

| Version | Date | Author | Reviewer | Change Reference |
|---|---|---|---|---|
| 0.1 | 26/11/03 | Change Delivery | SSMG | Initial Draft |
| 0.2 | 02/12/03 | Change Delivery | Change Delivery | Technical Review |
| 1.0 | 05/12/03 | Change Delivery | Panel | Final Review |

## 8.2 References

| Ref | Document | Owner | Issue date | Version |
|---|---|---|---|---|
| 1 | Modification Proposal P139 | | 21/08/03 | 1.0 |
| 2 | P139 Initial Written Assessment (IWA P139) | ELEXON | 04/09/03 | 1.0 |
| 3 | Requirements Specification for Modification Proposal P139 'Removal of Trading Unit restriction on Interconnector Users' | SSMG | 28/10/03 | 1.0 |
| 4 | The Statement of Use of System Charges | Transmission Company | 01/04/03 | 3.0 |
| 5 | BSCP 31-'Registration of Trading Units' | ELEXON | 12/09/2003 | 7.0 |
| 6 | Modification Proposal P139 Consultation Document (CD139) | SSMG | 28/10/03 | 1.0 |
| 7 | Regulation (EEC) No …/2003 of the European Parliament and of the Council on Conditions for access to the Network for Cross-Border exchanges in Electricity. | European Parliament | 26/06/3 | |

## ANNEX 1 DRAFT LEGAL TEXT

For the draft Legal Text to give effect to Proposed Modification P139 see Attachment 1.

## ANNEX 2 MODIFICATION GROUP DETAILS

The P139 Assessment Report has been prepared by the SSMG and the membership is detailed in the table below.

| Member | Organisation | Role |
|---|---|---|
| Roger Salomone | ELEXON | Chairman |
| Tom Bowcutt | ELEXON | Lead Analyst |
| Steve Drummond | EDF Trading (Proposer) | Member |
| Maurice Smith | Campbell Carr | Member |
| Paul Jones | Powergen | Member |
| Mark Pearce | National Grid | Member |
| Mark Manley | Centrica | Member |
| Joanne Ellis | Cornwall Consulting | Member |

In addition the following attendees have been present at one or more meetings during the Assessment Procedure:

| Member | Organisation | Role |
|---|---|---|
| Richard Hall | ELEXON | Change Delivery |
| Jerome Williams | Ofgem | Attendee |
| David Edwards | Ofgem | Attendee |
| Sanjukta Round | Cornwall Consulting | Attendee |
| Robert Barnett | Campbell Carr | Attendee |

The SSMG met 4 times during the three-month Assessment Procedure for P124.

## ANNEX 3 CONSULTATION RESPONSES

For the responses to industry consultation on Proposed Modification P139 see Attachment 2.

## ANNEX 4 TRANSMISSION COMPANY ANALYSIS

For the results of Transmission Company analysis of Proposed Modification P139 see Attachment 3.

## ANNEX 5 BSC AGENT IMPACT ASSESSMENTS

For the results of BSC Agent Impact asessment of Proposed Modification P139 see Attachment 4.

## ANNEX 6 PARTY IMPACT ASSESSMENTS

For the results of BSC Party impact asessment of Proposed Modification P139 see Attachment 5.