

# Draft MODIFICATION REPORT for Modification Proposal P134 The Halting of Unnecessary and Inefficient Work and Expenditure Associated with Approved BSC

Prepared by: ELEXON on behalf of the Balancing and Settlement Code Panel

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**Consultation**

This document has been distributed in accordance with Section F2.1.10<sup>1</sup> of the Balancing and Settlement Code.

## RECOMMENDATIONS

The Balancing and Settlement Code Panel recommends that:

- **Modification Proposal P134 should be made; and**
- **AGREE the P134 Implementation Date of 2 Working Days after the Authority decision.**

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<sup>1</sup> The current version of the Balancing and Settlement Code (the 'Code') can be found at [www.elexon.co.uk/ta/bscresl\\_docs/bsc\\_code.html](http://www.elexon.co.uk/ta/bscresl_docs/bsc_code.html)

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### SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as being potentially impacted by Modification Proposal P134.

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

<b>Cost of implementing Proposed Modification:</b>	<b>See section 3.1</b>
<b>Total:</b>	

## **1 DESCRIPTION OF (AND ISSUES RAISED BY) PROPOSED MODIFICATION**

### **1.1 Modification Proposal**

Modification Proposal P134 'The Halting of Unnecessary and Inefficient Work and Expenditure Associated with Approved BSC Modification P82' (P134) was raised on 30 June 2003 by British Energy Power and Trading Limited.

P134 was raised following the statement by the Department for Trade and Industry indicating that the Government is not minded to introduce non-zero Transmission Loss Factors across Great Britain following the introduction of the British Electricity Trading and Transmission Arrangements (BETTA). It is understood from public statements made by the DTI/Ofgem that BETTA is expected to be implemented by April 2005. The Implementation Date for P82 is 1 April 2004.

P134, therefore seeks to modify the Balancing and Settlement Code ('the Code') to remove the changes that Approved Modification P82 ('Introduction of Zonal Transmission Losses on an Average Basis') introduced. P134 also seeks to ensure that BSCCo immediately discontinues work on the implementation of P82 which is scheduled for implementation on 1 April 2004.

The Code does recognise that transmission losses could be allocated on a locational basis, although the parameters to support this, the Transmission Loss Factors (TLFs), have been set to zero since Go-Live. P82 introduces the application of zonal differentiation of transmission losses on an average basis to generation and demand. Currently, and until the Implementation Date of P82, allocation is based on a fixed and uniform basis with a defined split between production and consumption.

Under P82, a new BSC Agent ('the Transmission Loss Factor Agent (TLFA)) is required to be appointed to calculate annual TLFs, on an ex-ante basis, using a methodology specified in the Code. In addition, TLFs would be 'scaled' by a factor of 0.5 such that only variable losses (i.e. those caused by heating) would be allocated on a zonal basis. The Authority, in its decision letter, stated that it was its opinion that P82 better facilitated the achievement of Applicable BSC Objectives (a), (b) and (c).

The P134 Proposer argued that the operation of P82 for a finite period of time, anticipated by them to be 12 months, will introduce costs which far outweigh any benefit of such limited operation and its removal through P134 would better facilitate the achievement of the Applicable BSC Objectives (b) and (d).

#### **Validity of the Modification Proposal**

BSCCo's legal advisors have confirmed P134 is a valid Modification Proposal and was accepted as such by the Modification Secretary.

P134 satisfies the threshold tests of validity set out in F2.1.1 and F2.1.2 of the Code primarily because it identifies an issue in relation to the current legal version of the Code. The current version of the Code at any point in time is the Code as it is then published, plus all Approved Modifications.

#### **Urgent Modification Request**

In submitting P134, the Proposer also requested that in order to avoid any unnecessary expenditure, P134 be treated as an Urgent Modification Proposal pursuant to Section F2.9 of the Code. BSCCo took into consideration the range of factors that had previously been used when evaluating whether a Modification Proposal should be recommended to have urgent status and agreed to recommend the urgent treatment of P134 to the Panel.

The procedures outlined within Section F2.9 of the Code were followed and the Panel Chairman sought views on the urgent treatment of P134 from Panel members during a telephone conference on 30 June 2003. Of the Panel Members present during the telephone conference, all were supportive of the

urgent treatment of this Modification Proposal. The Distribution System Operators' representative was also present and supportive of such treatment.

The urgent treatment of P134 was justified by the Panel on the basis that costs associated with the implementation of P82 are being incurred both centrally and by participants on an on-going basis. The Panel's view was that such expense may be unnecessary were P134 to be approved by the Authority and it also recognised that BSCCo was, at that time, in the process of finalising the terms of the TLFA contract, the signing of which would trigger release of funds to the TLFA. This contract has subsequently been signed.

### **Authority Decision on Urgent Modification Status**

On 01 July 2003, the Authority issued its decision letter, which stated that P134 should be subject to the normal Modification Procedures and should not be treated as urgent.

In making its decision, the Authority described some of the characteristics that it currently considers Modification Proposals should exhibit prior to being granted urgent status. These characteristics are:

- there is a very real likelihood of significant commercial impact upon NGC, industry parties, or customers if a Proposed Modification is not urgent;
- safety and security of the network is likely to be impacted if a Proposed Modification is not urgent; and
- the Proposal is linked to an imminent date related event.

Furthermore the decision letter stated that in addition - "the Authority is of the opinion that the issuing of a 'minded to' statement by the Secretary of State regarding potential future GB wide trading arrangements should not affect its decisions regarding the processes concerning the modification of the England and Wales code. You will be aware that on the 17 January 2003 the Authority wrote to the Chairmen of all the code Panels and explained that until such time as the E (TT) Bill attained a significant step on the road to legal certainty, modifications to the England and Wales codes would continue to be processed and assessed on their appropriateness to England and Wales .... Until that time the prospective BETTA legislation should not influence the Authority's good regulatory practice which must be based on the current legislative and regulatory framework of the industry".

### **Submission of P134 to the Report Phase**

At its meeting on 10 July 2003, the Panel agreed that P134 should be submitted directly to the Report Phase with a recommendation that the Proposed Modification should be made. The Panel believed that the recommendation that it should make to the Authority in relation to P134 would generally be considered to be self-evident and that this satisfied the criteria for submitting a Modification Proposal directly to the Report Phase as defined within Section F of the Code.

## **1.2 Proposed Modification**

The Proposed Modification is fully defined within the Modification Proposal and seeks to ensure that work currently underway implementing Modification Proposal P82 is halted and that the Code is modified to remove the changes that Approved Modification P82 ('Introduction of Zonal Transmission Losses on an Average Basis') introduced.

## **1.3 Issues raised by the Proposed Modification**

An initial written assessment (IWA) of Modification Proposal P134 was presented to the Panel at its meeting on 10 July 2003. The IWA identified the following potential areas of impact and issues which would need to be considered and addressed in processing the Modification Proposal.

- **The Authority has determined that P82 better facilitates the Applicable BSC Objectives.** P134 was raised to remove the effect of an Approved Modification, in this case

P82. In making its determination with respect to P82, the Authority concluded that the achievement of the Applicable BSC Objectives would be better facilitated by P82's introduction. Additionally, in making its determination with respect to the urgency of P134, the Authority stated that prospective BETTA legislation should not influence the Authority's good regulatory practice which must be based upon the current legislative and the regulatory framework of the industry.

BSCCo noted in this regard that the DTI's view only has the status of a "minded to" decision and therefore, in BSCCo opinion, has an inherent degree of uncertainty. It is clear that the BETTA proposed legalisation has government support, as is expressly stated by the Authority in its letter rejecting the application to treat P134 as an urgent modification. However, as the proposed legislation has not yet reached a significant step along the way to legal certainty, it therefore must also be regarded as having an inherent degree of uncertainty. Added to this, the suggested BETTA implementation date of April 2005 in itself must also be regarded as, notwithstanding government support and firm intention, having an inherent degree of uncertainty.

Consideration of the above matters and of the Authority's letter to the Panel Chairman dated 17 January 2003, together with the Authority's letter to the Panel Chairman rejecting the application to treat P134 as urgent led BSCCo to conclude in the IWA that insufficient justification exists to support the view that the Applicable BSC Objectives would be better facilitated by the introduction of P134.

- **Interaction with Approved Modification P82 Development Plans.** It was noted that during the progression of P134, the work necessary to implement Approved Modification P82 would continue in order to meet its Implementation Date. This development work included the signing of contracts with the new BSC Agent together with the contract for the Model Reviewer.
- **Interaction with Modification Proposal P125.** It was noted that should **P134** be approved, Modification Proposal P125 '*Apportionment of the Scottish Interconnector flows to the Northern and North Western GSP Groups for the purposes of calculating losses*' (P125) would not be necessary. This is because P125 seeks to amend the treatment of zonally differentiated transmission losses across the Interconnector, in the context of the P82 arrangements. Were P125 to be approved prior to P134, the legal text for P134 may need to be amended to take into account the change to the baseline.

#### **1.4 Assessment of how the Proposed Modification will better facilitate the Applicable BSC Objectives**

This section of the report normally contains the Modification Group's view on how the Proposed Modification better facilitates the achievement of the Applicable BSC Objectives. As no Modification Group met to discuss P134 the rationale for why, in the Panel's opinion, P134 better facilitates the achievement of the Applicable BSC Objectives is contained within Section 2 of this Report.

#### **1.5 Modification Group's cost benefit analysis of Proposed Modification**

No Modification Group was appointed to assess P134 and as such no cost benefit analysis has been undertaken.

## 1.6 Governance and regulatory framework assessment

It is the view of the Proposer of P134 that the "Government's 27th June 2003 statement gave the strongest possible signals in the absence of primary legislation of its intention not to include Average Zonal Transmission Losses in the design of the GB market."<sup>2</sup>

The Authority has stated its view however that the BETTA arrangements have not yet attained a sufficient degree of certainty to enable it to influence the progression of Modification Proposals through the Modification Procedures set out under the Code.

## 2 RATIONALE FOR PANEL'S RECOMMENDATIONS

At its meeting on 10 July 2003, the Panel agreed that P134 should be submitted directly to the Report Phase with a recommendation that the Proposed Modification should be made. The rationale for why, in the Panel's opinion, P134 better facilitates the achievement of the Applicable BSC Objectives is set out below and the Panel believed that the recommendation it should make to the Authority in relation to P134 would generally be considered to be self-evident and that this satisfied the criteria for submitting a Modification Proposal directly to the Report Phase.

It was the Proposer's view that significant weighting should be given to the "minded to" statement by the Secretary of State and that as a result of this statement and the pending BETTA legislation, the introduction of P134, by preventing what it viewed as unnecessary costs, would better facilitate the achievement of Applicable BSC Objectives (b) "*The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System*" and Applicable BSC Objective (d) "*Promoting efficiency in the implementation and administration of the balancing and settlement arrangements*". In addition, it was the Proposer's opinion that these benefits would be realised provided that expenditure on the implementation of P82 is halted quickly. It was also the Proposer's view that continuing with P82 would create uncertainty for suppliers and customers wishing to enter into contracts for supply in the forthcoming Autumn contract round. The Proposer also believed that P134 better facilitated the achievement of Applicable BSC Objective (e). "*without prejudice to the foregoing objectives and subject to paragraph 3A, the undertaking of work by BSCCo (as defined in the BSC) which is:*

- (i) *necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and*
- (ii) *relevant to the proposed GB wide balancing and settlement code;*"

In coming to the recommendation within the P134 IWA, BSCCo outlined that it did not believe it was a sufficiently competent body with respect to judging how much influence the following factors should have on the outcome of the decision by the Panel in respect of P134:

- the certainty or otherwise of the BETTA Legislation;
- the certainty or otherwise of the proposed implementation timetable of BETTA; and
- how much influence a "minded to" statement should have on the treatment of Modification Proposals under the Code.

As such BSCCo's recommendations considered only those matters which it believed could legitimately be taken into account in considering any modification to the Code. A view supported by BSCCo's legal advisors before and at the Panel meeting.

In view of the above, the only recommendation open to BSCCo, in the absence of any formal change occurring, within the Balancing and Settlement Code legal framework, was to recommend that the

<sup>2</sup> Source: Slides presented to the Panel meeting on 10 July 2003 by the Proposer of P134

Panel's recommendation should be that P134 should be submitted directly to the Report Phase with a recommendation that the Proposed Modification should not be made.

The Panel discussed to what extent a "minded to" statement by the Secretary of State in relation to whether non zero Transmission Losses would be introduced on a GB wide basis should influence their decision in respect of P134.

The Panel believed that there was a reasonable certainty that the existing Balancing and Settlement Code would evolve into the relevant Code to be applied on a GB-wide basis. In view of the 'minded to' statement from the Secretary of State, that non-zero TLFs would no longer be applied within the Code from that point, the Panel believed that the statement should have a heavy bearing on its recommendation.

Consequently, the Panel believed that the costs (both to BSCCo and the industry) involved in implementing P82 were not justified, as the purported benefits of the transmission losses scheme would not be realised over the life of the scheme as the lifetime of the scheme would now be considerably shorter than that originally envisaged. (i.e. it was the Panel's opinion that non zero TLFs would only exist between the P82 implementation date and the BETTA go live date). The Panel therefore believed that the benefits of P82 would be curtailed to the point of being nugatory, although the implementation costs remain. Hence implementing P134 would, in the Panel's opinion, prevent some unnecessary costs being incurred and would therefore better facilitate the achievement of Applicable BSC Objective (d).

The Panel also considered the position of participants who were attempting to agree contracts during Autumn 2003. If P134 were to be rejected, the Panel judged that participants would need to negotiate contracts which reflected the P82 arrangements for a short period of time and then not to, albeit with some degree of uncertainty, particularly on the actual timescale for the inclusion of the P82 treatment. If P134 were to be accepted, contracts could be negotiated without any account being taken of the P82 arrangements with an improved degree of certainty. The Panel concluded, therefore, that acceptance of P134 would result in enhanced efficiency for the industry, thus leading to better achievement of Applicable BSC Objective (c).

In view of the above considerations, the Panel agreed that its recommendation to the Authority was self evident and that P134 should be submitted to the Report Phase with a recommendation to approve the Proposed Modification P134. The Panel also recognised that going straight to report (having failed to gain urgency status) would mean that resolution of the issue would not be delayed any further. It believed that the benefits through the reduction of costs which P134 seeks to achieve would not be realised, as those costs would be incurred anyway if any other, lengthier, procedure was followed.

In coming to this recommendation, the Panel recognised that in taking its decision on P82 the Authority would have taken into account its wider statutory responsibilities and objectives (in relation to consumers, the environment etc.) and that on these same grounds it was possible that the Authority might reach a different decision on P134 than that recommended by the Panel which was looking solely at what might be best within the confines of the Code.

### **3 IMPACT ON BSC SYSTEMS AND PARTIES**

#### **3.1 BSCCo**

The initial assessment undertaken in respect of P134 identified the following as potentially being impacted by the Modification Proposal.

Area of Business	Potential Impact of Proposed Modification
------------------	---

BSCCo Systems	Business Process Model <sup>3</sup> , BSC Website developed and the ELEXON NGC file converter would need to be amended to remove any changes introduced by P82.
BSCCo Contracts (Excluding BSC Agent Contracts)	The contract with the Modelling Reviewer will need to be terminated.
Other (e.g. costs, staffing, etc.)	<p>The project to implement Modification Proposal P82 has an overall budget of approximately £670K including all demand led and operational costs as well as the costs of procuring a new BSC Agent. At the July Panel meeting, approximately £160K of this total budget had been spent with the majority of the remaining budget due to be spent by 1 December 2003. At the end of July 2003, the expenditure to date on P82 stood at approximately £232k. Were any decision in favour of P134 forthcoming before 1 December 2003 then, other than Project closedown costs, there would be an amount of money as yet unspent on the P82 development budget, a proportion of which (i.e. that not already contractually committed) would no longer have to be spent.</p> <p>One consultation respondent requested that further information related to the P82 Project spend be made available within the report.</p> <p>In response to this request, BSCCo estimate that the total spend, including both demand led and operational costs, in relation to P82 by the August 2003 Panel meeting will be approximately £239k with the estimated spend increasing to £248k by the end of August 2003.</p>

### 3.2 BSC Systems

An initial assessment has been undertaken in respect of all BSC Systems and processes and the following have been identified as potentially being impacted by the Modification Proposal

BSC System / Process	Potential Impact of Proposed Modification
Registration	Changes to the Central Registration Agent systems and processes have been commenced in order to implement P82. This work will need to be stopped. It should be noted however that the changes required for P82 have been developed in a modular manner and therefore can be removed from the relevant software release without the need for additional retesting.
Collection and Aggregation of	The Central Data Collection Agent is developing some

<sup>3</sup> Work on the Business Process Model and the BSC Website has not yet commenced.

BSC System / Process	Potential Impact of Proposed Modification
Metered Data	bespoke software in order to provide an extract of Metered Volumes for the sample Settlement Periods required by the TLFA and work undertaken on this would need to be halted
TLFA Service Development	Activities associated with the service development currently being undertaken by the TLFA would need to be halted.

### 3.3 Parties and Party Agents

During the progression of P82 Detailed Level Impact Assessments were requested to understand which Party systems would be impacted by the introduction of P82. It is logical to assume that systems impacted by the introduction of P82 may also be impacted by the approval of P134.

The following Party systems were identified as being potentially impacted by the introduction of P82 and hence could be impacted by the introduction of P134:

- Demand forecasting;
- Billing;
- Settlement;
- Risk Management;
- Power Pricing; and
- Trading

At the time of the P82 impact assessment, respondents indicated that a lead-time of between 3 and 12 months would be required to implement the necessary changes and two respondents cited costs for the additional developments required, one quoted a cost of between £250,000 and £500,000 and the other a cost of between £500,000 and £1,500,000. It is also assumed that a proportion of party implementation costs would be avoided if P134 was approved, although it is not possible to quantify this amount without further information from parties.

## 4 IMPACT ON CODE AND DOCUMENTATION

### 4.1 Balancing and Settlement Code

An initial assessment has been undertaken in respect of all Sections of the Code and the following Sections have been identified as potentially being impacted by the Modification Proposal.

Item	Potential Impact of Proposed Modification
Section E	The definition of the TLFA would need to be removed from the Code.
Section H	Reference to the Load Flow Model specification would need to be removed.
Section T	Additional annexes inserted during P82 that provided a high level description of the Transmission Factor Methodology and the Load Flow Model used to generate zonal TLFs would need to be removed.
Section V	The reporting requirements of the TLFA
Annex X1 and X2	The additional definitions added to Annex X1 and Annex X2 would need to be removed.

## 4.2 Code Subsidiary Documents

An initial assessment has been undertaken in respect of all Code Subsidiary Documents and the following documents have been identified as potentially being impacted by the Modification Proposal.

It should be noted that Code Subsidiary Documentation changes developed as part of the implementation of P82, have been developed in a standalone manner. The main impact will therefore be to ensure that any changes to Code Subsidiary Documents introduced as part of P82 are not incorporated into the final versions of any documents release as part of the Central Volume Allocation release programme.

Item	Potential Impact of Proposed Modification
BSCP01	BSCP01 – 'Overview of Trading Arrangement – Remove changes introduced by P82
BSCP15	BSCP15 - 'BM Unit Registration' - update required to remove obligation on the CRA to notify TLFA of registration of new BM Units and de-registration of existing BM Units – Remove changes introduced by P82
BSCP38	BSCP38 – Authorisations - – Remove changes introduced by P82
BSCP41	BSCP41 – Report Requests and Authorisation - – Remove changes introduced by P82.
TLFA Service Description	Work has completed on the TLFA Service Description was approved at the Panel meeting on 10 July 2003 will need to be deleted.
CRA Service Description	Remove changes introduced by P82 (draft)
CDCA Service Description	Remove changes introduced by P82 (draft)
SAA Service Description	Remove changes introduced by P82 (draft)
NETA Data File Catalogue	Remove changes introduced by P82 (draft)
Reporting Catalogue	Remove changes introduced by P82 (draft)
Communications Requirements Document	Remove changes introduced by P82 (draft)
Load Flow Model Specification	Remove changes introduced by P82 and approved by Panel at June 2003 meeting.

## 4.3 Impact on Core Industry Documents and supporting arrangements

An initial assessment has been undertaken in respect of Core Industry Documents and no documents have been identified as potentially being impacted by the Modification Proposal.

An initial assessment has been undertaken in respect of other configurable items and the following have been identified as potentially being impacted by the Modification Proposal.

#### 4.4 Impact on other configurable items

Item	Potential Impact of Proposed Modification
CDCA User Requirements Specification	Remove changes introduced by P82
CRA User Requirements Specification	Remove changes introduced by P82
TLFA Documentation	Remove changes introduced by P82
Interface Definition Document Part II	Remove changes introduced by P82

### 5 SUMMARY OF CONSULTATIONS

A total of 14 responses (53 Parties and 2 Non Parties) were received to the consultation on P134.

Consultation question	Respondent agrees	Respondent disagrees	Opinion unexpressed
Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made?	10 (29 Parties & 1 Non Party)	3 (24 Parties)	1 (1 Party)
Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal?	10 (50 Parties & 1 Non Party)	None	4 (3 Parties & 1 Non Party)
Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	11 (51 Parties)	None	3 (2 Parties & 1 Non Party)

#### 5.1 Summary of the consultation responses

##### 5.1.1 Arguments *in favour* of Panel's recommendation to the Authority that P134 should be made

One respondent reiterated their views in respect of P82 that they had not believed that P82 better facilitated the achievement of the Applicable BSC Objectives in respect of demand. This respondent further commented that it would not be sensible for locational signals to apply for such a short period of time given the forthcoming implementation of BETTA, even if BETTA were further delayed from the current April 2005 Implementation Date.

The majority of respondents agreed with the Panel's rationale in respect of P134 and took the view that the provisions brought about by P82 will only prevail for a limited period of time and therefore will not achieve the perceived benefits of producing long term signals for the siting of generation and demand. The majority of respondents further believed that P134 would prevent unnecessary costs being incurred as a result of the implementation of P82.

### **5.1.2 Arguments *against* the Panel's recommendation to the Authority that P134 should be made**

One respondent suggested that the relevant legislation for BETTA will be silent with respect to the treatment of Transmission Losses. They further argued that BETTA may be delayed and that there was no certainty that BETTA would be introduced. The respondent also commented that the "minded to" statement by the Department of Trade and Industry could be reversed.

Another respondent stated that the achievement of the Applicable BSC Objectives is not better facilitated by the introduction of P134.

One respondent stated that they believed P134 was a contingent Modification Proposal and that they believed that P134 does not relate to the current version of the Code.

### **5.1.3 Comments on the legal text**

All respondents, who provided a comment, agreed the draft legal text addressed the defect identified within the Modification Proposal.

One respondent also noted the interaction between the legal text for P134 and P125 and stated that if P125 were to be approved prior a decision on P134 then the legal text supplied with the P134 Modification Report would be against a different baseline to that contained within the version of the Code effective after such decision.

### **5.1.4 Comments on the Proposed Implementation Date**

All respondents, that provided a comment on the Implementation Date, agreed with an Implementation Date for P134 of two Working Days after any Authority decision to approve P134. A number of respondents expressed the desire to receive an early decision in respect of P134.

One respondent suggested that an early decision on P134 would maximise the benefit from its introduction.

### **5.1.5 Other comments**

One respondent suggested that in order to remove uncertainty a quick decision from the Authority in respect of P134 was necessary.

One respondent observed that the Authority had approved P82 based on the basis that it better facilitated the achievement of the Applicable BSC Objectives and not necessarily simply because of its wider statutory obligations. The respondent also took issue with the wording of the final paragraph of Section 2 of this report. The respondent inferred that this section had implied that the Authority made its decision with respect to P82 based on its wider statutory obligations. The paragraph in question had noted the Panel's recognition of the Authority decision making process and that this in turn would include the wider statutory objectives in relation to the environment etc. No change to the relevant paragraph has been made as a result of this comment however the Panel are at liberty to direct a change if it wishes to do so.

One respondent stated that as a result of P134 not being granted urgent status by the Authority, the perceptions of regulatory risk in the market were unacceptable and needlessly high.

One respondent suggested that there was insufficient information relating to how much had been spent on P82. This respondent suggested that information be provided to allow the Authority to understand the projected level of costs to be incurred on the implementation of P82 by the end of August 2003. Another respondent suggested that consideration needs to be given to the costs already sunk into the implementation of P82 as highlighted in Section 3.1 of the report and noted the figure of £160K that the report highlighted had been spent by the July Panel meeting and requested that an update on costs should be provided at the August Panel meeting. An update to

the costs incurred to date as well as an estimate of the projected spend on the Project has been provided within Section 3.1 of this report.

One respondent expressed surprise that the Authority considers a "Minded to" statement by the DTI insufficient cause to justify urgent status.

One respondent suggested that continued implementation of P82 would lead only to the inequitable transfer of costs rather than any benefits.

One respondent suggested that the time may be appropriate to review the legal advice it had received prior to the letter it wrote to the Chairmen of the industry Codes on 17 January 2003.

## 6 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

No transmission Company Analysis has been commissioned. However at the July Panel meeting, the Transmission Company representative indicated the size of the budget within the Transmission Company to prepare for BETTA. The Transmission Company representative indicated that as the costs were significant they had placed a heavy reliance on BETTA being introduced.

## 7 SUMMARY OF EXTERNAL ADVICE

None commissioned.

## 8 IMPLEMENTATION APPROACH

On the advice of the BSCCo, the Panel recommends that P134 should be implemented two Working Days after an Authority decision in favour of P134. If a decision is made in favour of P134, BSCCo would seek to close down in an orderly manner any work underway on the development of P82.

## 9 DOCUMENT CONTROL

### 9.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	17/07/03	Richard Clarke	Change Delivery	For review
0.2	24/07/03	Richard Clarke	Change Delivery	Incorporating Review comments – Issued for consultation
0.3	06/08/03	Richard Clarke	Change Delivery	For formal review following consultation
0.4	08/08/03	Richard Clarke	Change Delivery	For Panel Decision

## **ANNEX 1 DRAFT LEGAL TEXT**

The legal text for the Proposed Modification is attached as a separate document.

## **ANNEX 2 MODIFICATION GROUP DETAILS**

As this Modification Proposal was submitted directly to the Report Phase, no Modification Group was formed to undertake an assessment of whether or not the Proposed Modification better facilitates the Applicable BSC Objectives.

## **ANNEX 3 CONSULTATION RESPONSES**

### **Responses from P134 Draft Report Consultation**

Consultation issued 24 July 2003

Representations were received from the following parties:

<b>No</b>	<b>Company</b>	<b>File Number</b>	<b>No. BSC Parties Represented</b>	<b>No. Non-Parties Represented</b>
<b>1.</b>	Powergen	P134_DR_001	14	0
<b>2.</b>	Corus Group	P134_DR_002	0	1
<b>3.</b>	ConocoPhillips UK Limited and Immingham CHP	P134_DR_003	2	0
<b>4.</b>	Scottish Power	P134_DR_004	6	0
<b>5.</b>	British Gas Trading	P134_DR_005	1	0
<b>6.</b>	Innogy	P134_DR_006	9	0
<b>7.</b>	First Hydro	P134_DR_007	1	0
<b>8.</b>	Aquila Networks	P134_DR_008	1	0

<b>9.</b>	British Energy	P134_DR_009	3	0
<b>10.</b>	Alcan Smelting and Power	P134_DR_010	0	1
<b>11.</b>	EDF Energy	P134_DR_011	9	0
<b>12.</b>	EdF Trading Ltd and EdF (Generation)	P134_DR_012	2	0
<b>13.</b>	Teesside Power Ltd	P134_DR_013	1	0
<b>14.</b>	Scottish and Southern	P134_DR_014	4	0

**P134\_DR\_001 – Powergen**

<b>Respondent:</b>	Powergen UK plc
<b>No. of BSC Parties Represented</b>	Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy
<b>BSC Parties Represented</b>	14
<b>No. of Non BSC Parties Represented</b>	0
<b>Non BSC Parties represented</b>	
<b>Role of Respondent</b>	Supplier, Generator, Trader and Exemptable Generator

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	No	<p>We thank the Panel for sending this modification proposal to the Report phase, rather than requiring the TLFMG to assess the proposal for up to 3 months!</p> <p>Nevertheless we cannot agree with the Panel's recommendation to approve P134. Certainty as to whether zonal transmission loss factors should be introduced to the GB market as a whole will only be achieved when the Secretary of State designates the GB BSC. The necessary BETTA legislation will be silent on the treatment of transmission</p>

Q	Question	Response	Rationale
			<p>losses and in itself will only be guide as to whether BETTA will go ahead, not whether particular market rules should, or should not be applied.</p> <p>Delay in the implementation for BETTA may take place, or it may not be introduced at all. Many of those that strongly lobbied against the introduction of zonal transmission losses in England and Wales, would clearly love the project to be abandoned. What if they are successful?</p> <p>Is it right to forgo the benefits in terms of competition and efficiency that zonal transmission loss factors will bring to England and Wales based on something that may or may not happen? The DTI could even alter its 'minded to' decision on GB zonal transmission losses.</p> <p>The P134 Draft Modification Report is short on cost-benefit analysis. There are no figures for example stating how much has been spent so far by Elexon on P82 implementation and indeed how much might be spent by Elexon if Ofgem were to approve the proposal by the end of August 2003 (the earliest possible decision date).</p> <p>If much of the costs have already been incurred, they must be considered as sunk costs and one might as well continue to implement P82, to obtain its benefits for a year (or more if BETTA were to be delayed).</p>
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	
4.	Are there any further comments on P134 that you wish to make?	Yes	Like the Panel we do not believe Ofgem can realistically make a decision now to approve

Q	Question	Response	Rationale
			<p>P134, on the basis of the level of certainty or rather uncertainty provided by the DTI 'minded to' decision.</p> <p>To however, provide the market with certainty as to the arrangements for transmission losses in England and Wales from 1 April 2004, we would urge Ofgem to quickly reject P134 rather than delay its [approval] decision to a point in time when there is a high degree of certainty as to the form of the GB market rules (i.e. when the contents of the GB BSC have been finalised).</p> <p>In addition the Draft Modification Report on the rational for the Panel's decision implies that Ofgem chose to approve P82 on grounds of its wider statutory duties. Although Ofgem did take account of its wider statutory duties in its P82 decision it is apparent from their decision letter that it was not these wider duties alone that resulted in Ofgem deciding to go against the Panel's recommendation. <u>Ofgem concluded that P82 did indeed better facilitate Applicable BSC Objectives (a), (b) and (c).</u> We would request that the last paragraph of section 2 is changed so that it doesn't incorrectly imply on what basis Ofgem made its P82 decision.</p>

### P134\_DR\_002 – Corus Group

Corus did not support P82, particularly because we did not believe that the Applicable BSC Objectives would be bettered in respect of demand. As one of the alleged benefits of zonal losses is the provision of economic signals to locate or relocate, surely it would not be sensible for these to apply for such a short period before they disappeared when BETTA is introduced. Moreover, even if BETTA is delayed until say April 2006, it would still be counter-productive for locational signals to apply in the intervening period. We therefore strongly support P134 and urge the panel to recommend it to Ofgem.

### P134\_DR\_003 – ConocoPhillips

<b>Respondent:</b>	<i>Rekha Patel</i>
<b>No. of BSC Parties Represented</b>	2
<b>BSC Parties Represented</b>	ConocoPhillips UK Limited and Immingham CHP

<b>No. of Non BSC Parties Represented</b>	
<b>Non BSC Parties represented</b>	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	<i>Generator and Trader</i>

	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	Yes	ConocoPhillips notes and welcomes the BSC Panel's decision to go directly to report stage with a recommendation to accept P134. Given that the government has clearly indicated that it does not intend to rollout P82 to Scotland with the commencement of BETTA, we support the attempt by British Energy to bring about early rectification of the BSC in the form of P134.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	The defect being addressed is the removal of P82 from the BSC. The Panel requesting the deletion of all references associated with average zonal transmission losses is the appropriate method.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	It is vital to ensure that the unnecessary expenditure associated with the implementation of P82 is halted as soon as possible thus supporting the implementation date of 2 working days after the Authority's decision on P134.
4.	Are there any further comments on P134 that you wish to make?	Yes	As a consequence of P134 not receiving the justified 'urgent' status, the perceptions of regulatory risk in the market are consequence unacceptable and needlessly high.

#### **P134\_DR\_004 – Scottish Power**

<b>Respondent:</b>	<i>David Finnigan</i>
<b>No. of BSC Parties Represented</b>	6
<b>BSC Parties Represented</b>	<i>Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd.; ScottishPower Energy</i>

	<i>Retail Ltd.; SP Transmission Ltd.; SP Manweb plc.</i>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non BSC Parties represented</b>	N/A
<b>Role of Respondent</b>	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	Yes	ScottishPower agrees wholeheartedly with the Panel's views on P134 and its recommendation to the Authority that the Modification should be made. The position, which the Authority has set out regarding BETTA, is unsatisfactory. On the strength of the Government's public commitment to implementing BETTA on 1 April 2005 the industry, with Ofgem's encouragement, are committing significant expenditure, which, in the case of participants' costs, will not necessarily be recoverable. For Ofgem to insist at the same time that the industry should invest in systems to handle zonal transmission losses in England and Wales which will, on the strength of a Government statement, be used only for one year seems at odds with Ofgem's statutory duty to protect customers. Furthermore, the decision not to grant urgent status to P134, which appears to be in conflict with both the first and the third of the Authority's criteria for granting urgent status quoted in the DMR, has allowed the commitment of nugatory expenditure on zonal transmission losses to be continued for longer than was necessary or sensible. We fully support the Panel's recommendation that Modification P134 be made and seek a swift decision from the Authority in order that further waste of resources can be avoided.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	The legal text provided in the draft modification report appears to correctly address the defect identified in the Modification Proposal.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	We believe that the Modification should be implemented as soon as possible after the Authority decision is received and agree that two working days is appropriate.

Q	Question	Response	Rationale
4.	Are there any further comments on P134 that you wish to make?	No	We have not identified any impacts other than those highlighted in the draft modification report.

#### **P134\_DR\_005 – British Gas Trading**

##### Modification Proposal 134: The Halting of Unnecessary and inefficient work and expenditure associated with approved BSC modification P82

Thank you for the opportunity to comment on this modification report. British Gas Trading support this proposal. We believe that in light of the DTI's findings on the applicability of average zonal transmission losses the most efficient course of action is to halt all work and expenditure on the implementation of P82.

One of the principle benefits of average zonal losses was that it would introduce locational signals that would influence the siting decisions of generation and demand. These cost reflective signals would only be achieved over a long-term application of zonal transmission losses. We do not believe it is possible for these benefits to be realised within the year that would elapse between the implementation of P82 and the proposed implementation of BETTA in April 2005.

We also note that locational signals are currently available to generation and demand through NGC's charging methodologies for TNUoS. In our view, this provides sufficient cost reflective signals to encourage the correct siting decisions for generation and demand.

With this in mind, we believe the efficient operation of the BSC can be best served by halting the significant expenditure on the development of P82 systems, processes and documentation. This is also true for BSC Parties. Furthermore, the DTI decision will disadvantage Elexon in their negotiations with any agency that will provide the Transmission Loss Factor Agent services. This will lead to higher costs for all industry participants and potentially damage competition.

Bearing in mind the ongoing and cumulative costs of P82 implementation we trust that the Authority will make an expedient decision.

Yours faithfully

Danielle Lane

#### **P134\_DR\_009 – Innogy**

<b>Respondent:</b>	<i>Name Bill Reed</i>
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<b>No. of BSC Parties Represented</b>	9
<b>BSC Parties Represented</b>	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant). Innogy plc, Innogy Cogen Limited, Innogy Cogen Trading Limited, Npower Limited, Npower Direct Limited, Npower Northern Limited, Npower Northern Supply Limited, Npower Yorkshire Limited, Npower Yorkshire Supply Limited.</i>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non BSC Parties represented</b>	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	No	We do not believe that the proposed modification better facilitates the BSC objectives.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	The proposed legal text removes the P82 legal text.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	If approved, then P134 should be implemented as soon as practicable.
4.	Are there any further comments on P134 that you wish to make?	No	No

### **P134\_DR\_007 – First Hydro**

<b>Respondent:</b>	<i>Libby Glazebrook</i>
<b>No. of BSC Parties</b>	One

<b>Represented</b>	
<b>BSC Parties Represented</b>	<i>First Hydro Company</i>
<b>No. of Non BSC Parties Represented</b>	
<b>Non BSC Parties represented</b>	<i>None</i>
<b>Role of Respondent</b>	<i>Generator</i>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	No	The Authority has made clear the point at which BSC Modifications can be considered on a GB wide basis. P134 is a contingent modification until there is the required certainty that BETTA will be implemented. P134 does not relate to the current version of the BSC Code, it will become relevant when the BETTA bill receives its second reading.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes / No	No comment
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	If the modification is approved by the Authority, it is sensible to halt any further expenditure on Mod P82 as soon as possible.
4.	Are there any further comments on P134 that you wish to make?	Yes	<p>Consideration needs to be given to the amount of costs already sunk into the implementation of P82. The P134 Modification Report notes that £160k of the £670k budget had been spent by the July Panel meeting. Since then, the TLFA and the model reviewer have been appointed. Are there termination costs associated with these contracts?</p> <p>An update on the costs to date and any termination costs should be provided at the August BSC Panel meeting. If a substantial sum has been incurred already and there are termination costs, then the argument that implementing P134 will avoid unnecessary costs being incurred is considerably weakened.</p>

**P134\_DR\_008 – Aquila Networks**

Please find that Aquila Networks Plc response to P134 Consultation on draft Modification Report is 'No Comment'.

regards  
Rachael Gardener

Deregulation Control Group &  
Distribution Support Office  
AQUILA NETWORKS

**P134\_DR\_009 – British Energy**

<b>Respondent:</b>	<i>Name</i> <b>British Energy Power &amp; Energy Trading Ltd</b>
<b>No. of BSC Parties Represented</b>	3
<b>BSC Parties Represented</b>	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant)</i> <b>British Energy Power &amp; Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd</b>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non BSC Parties represented</b>	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	<b>BSC Party</b>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
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Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	Yes	British Energy strongly supports and agrees the Panel's provisional recommendation that P134 should be made. Rationale for this is as set out in the modification proposal and repeated and developed at the BSC Panel meeting of 10 <sup>th</sup> July 2003, namely that in the light of the minister's 'minded to' statement P134 better facilitates Applicable Objectives (b) (d) and (e). One of the reasons why a majority of the Panel did not recommend P75/82 to the Authority was the lack of a clearly demonstrated cost-benefit even as an enduring change. On the evidence available, there can be no doubt that if P82 is implemented for only one or a few years, no cost-benefit has been demonstrated, and P134 will prevent unnecessary costs being incurred both centrally and by participants..
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	The legal text has the effect of unwinding the changes to introduce P82 and therefore is entirely consistent with the aims of P134.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	An early decision to halt work on P82 is necessary if unnecessary and inefficient expenditure is to be avoided and for the industry to enter into the forthcoming contracting rounds with certainty.
4.	Are there any further comments on P134 that you wish to make?	Yes	We believe that significant weight should be placed on the Secretary of State's 'minded to' statement. It should and did have a heavy bearing on the Panel's decision to recommend implementation of P134 given the reasonable certainty that the existing Balancing and Settlement Code will evolve into the GB Code. We are surprised that the Authority considers a "minded to" decision by the DTI as insufficient cause to justify urgent status, particularly while the Authority suggests elsewhere (P109 decision) that its own previously expressed views on locational loss charging should have allowed parties to anticipate such changes.

### P134\_DR\_010 - Alcan Smelting and Power

<b>Respondent:</b>	Jonathan Scott
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<b>No. of BSC Parties Represented</b>	0
<b>BSC Parties Represented</b>	
<b>No. of Non BSC Parties Represented</b>	1
<b>Non BSC Parties represented</b>	Alcan Smelting and Power UK
<b>Role of Respondent</b>	other – Licence Exempt Generator

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	Yes	<p>Alcan strongly agrees with the Panel's views on Modification Proposal 134, and in particular regarding the weighting that should be given to the Secretary of State's 'minded to' statement on GB-wide AZTLs. Under the current legislative circumstances this is the clearest of indications that can be given by the Government in relation to the transmission arrangements under BETTA, and should be considered a strong signal of intent that the changes made by Modification P82 will not be included in a GB Balancing And Settlement Code under BETTA.</p> <p>Following this statement and without approval of Modification Proposal P134 AZTLs would be likely to be implemented for a period of 12 months. One of the <i>alleged</i> benefits of AZTLs is to provide locational signals for generation and demand. This is highly questionable over the longer term and impossible within the shorter period.</p> <p>Alcan believes that Modification Proposal P134 better facilitates Applicable BSC objectives (b), (d), and (e), relating to the efficient operation of the Transmission System, implementation of Balancing and Settlement Arrangements, and the timely and effective implementation of BETTA. The modification would remove the need for unnecessary, unjustifiable and inefficient costs associated with P82 (and P125).</p>
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the	Yes	

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
	Modification Proposal? Please give rationale.		
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	<p>The BSCCo, BSC Parties and Non-BSC parties are in the process of preparation for Modification P82. Modification P134 should be implemented at the earliest possible opportunity to reduce associated costs.</p> <p>Approximately 75% of the BSCCo budget for implementation of P82 remains unspent and the BSCCo has yet to appoint a TLFA. Parties have estimated the costs of P82 as up to £1 million.</p> <p>Alcan is concerned that the Authority's decision not to grant P134 urgent status, and signals that a decision on the modification will be delayed until a further reading of BETTA legislation, would result in many of these costs being incurred unnecessarily.</p> <p>Early implementation of P134 would result in significant cost savings for the industry as a whole.</p>
4.	Are there any further comments on P134 that you wish to make?	Yes	Alcan submitted responses to consultations on P75, P82, P125, and the DTI consultation on GB-wide Transmission Losses. The comments within these responses remain valid, not least the concern that Zonal Transmission Losses fail to bring any tangible benefit to the system as a whole and lead only to an inequitable transfer of costs rather than cost savings.

### **P134\_DR\_011 – EDF Energy**

<b>Respondent:</b>	Rupert Judson
<b>No. of BSC Parties Represented</b>	9
<b>BSC Parties Represented</b>	Jade Power Generation Ltd; EPN Distribution Limited; London Energy Plc; EDF Energy Plc; EDF Energy Networks (LPN) plc; Seeboard Power Networks plc; SEEBOARD Energy Limited; EDF Energy (Sutton Bridge Power) Ltd; EDF Energy West Burton Power Ltd.

<b>No. of Non BSC Parties Represented</b>	None that we consider applicable.
<b>Non BSC Parties represented</b>	N/A
<b>Role of Respondent</b>	Supplier / Generator / Party Agent / Distribution Business

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel’s views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	<b>Yes</b>	<p>EDF Energy <b>agrees</b> with the Panel’s view that Modification P134 should be made.</p> <p>Although no legislation has yet been introduced or passed relating to BETTA, it is clear that there is a significant commitment on the part of the Department of Trade and Industry (DTI) and Ofgem, and indeed throughout the industry, to the development and implementation of BETTA. Therefore, we consider that the DTI’s “minded to” decision on GB-wide losses can be taken as a very strong indication of the likely GB BSC baseline under BETTA.</p> <p>Analysis of Modification P82, provided by NERA and Campbell Carr during the assessment process and by Oxera on behalf of the DTI, has shown that the benefits of a zonal transmission losses scheme are inherently long term. Indeed, the intent of the original modification proposal was:</p> <p style="text-align: center;">“the introduction of <b>long term</b> signals for the siting of generation and demand”.</p> <p>Clearly, therefore, the introduction of this modification for just one year until BETTA Go-live would not allow appropriate time for the intended benefits of the modification to be realised.</p> <p>However, the majority of the costs, both central and participant, associated with implementing P82 are significant and short term. It is not therefore economically efficient to allow the continued implementation of this modification now that its long term benefits are unlikely to be achieved.</p> <p>We therefore believe that Modification P134, by removing the changes introduced by P82 from the BSC, better achieves Applicable BSC Objectives (b): The efficient,</p>

Q	Question	Response	Rationale
			economic, and co-ordinated operation by the Transmission Company of the Transmission System, and (d): Promoting efficiency in the implementation and administration of the balancing and settlement arrangements. The objectives are better achieved by P134 as it would prevent further unnecessary expenditure on the implementation of P82 and would remove a modification that would be inefficient and costly to the whole industry.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	<b>Yes</b>	EDF Energy <b>agrees</b> with the Panel's view that the legal text correctly addresses the defect identified by Modification P134.  The removal of zonal transmission losses arrangements from the BSC, resetting the Transmission Loss Factor (TLF) back to zero for all BMUs, will correctly address the defect identified by Modification P134 and will lead to the requirement to immediately cease any expenditure associated with the implementation of P82.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	<b>Yes</b>	EDF Energy <b>agrees</b> with the Panel's provisional recommendation that P134 should be implemented two days after a decision is received.  Given that costs are currently being unnecessarily and inefficiently incurred by industry participants and Elexon in the implementation of P82, we believe that P134 should be implemented as soon as possible to minimise the exposure of all concerned to these unnecessary costs – which will ultimately be paid for by consumers. In addition, we would urge Ofgem to make a prompt decision on this modification for the reasons outlined above.
4.	Are there any further comments on P134 that you wish to make?	<b>Yes</b>	EDF Energy notes the potential interaction of this modification with Modification P125. If P125 is approved and implemented before a decision is received on P134, then the legal text for P134 will relate to a BSC baseline which is different from that which is then in effect.

**P134\_DR\_012 – EdF Trading Ltd and EdF (Generation)**

<b>Respondent:</b>	<i>Name Steve Drummond</i>
<b>No. of BSC Parties Represented</b>	2
<b>BSC Parties Represented</b>	<i>EdF Trading Limited and EdF (Generation)</i>
<b>No. of Non BSC Parties Represented</b>	
<b>Non BSC Parties represented</b>	<i>N/a</i>
<b>Role of Respondent</b>	<i>Trader and Generator</i>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	Yes	Whilst we support the concept of putting in a Transmission Losses Scheme as proposed under P82, it does seem to us to be a nonsense to spend millions of pounds on implementing P82 when the SoS is minded not to implement such a scheme under BETTA.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	
4.	Are there any further comments on P134 that you wish to make?	No	

**P134\_DR\_013 – Teesside Power Ltd**

<b>Respondent:</b>	<i>Keith Miller</i>
<b>No. of BSC Parties Represented</b>	<b>1</b>
<b>BSC Parties Represented</b>	<b>Teesside Power Limited</b>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non BSC Parties represented</b>	<b>N/A</b>
<b>Role of Respondent</b>	<b>Generator</b>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 <b>should</b> be made? Please give rationale.	Yes	The statement by the Secretary of State that the government is not minded to approve a GB BSC which includes zonal transmission loss charges is a clear indication that the P82 changes would operate for no more than 12 months. On this basis, it is inefficient for the industry to incur the costs of implementation of P82 when any benefit from the twelve month period of operation will be at best minimal.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	The draft legal text removes the need to continue with the implementation of P82, thereby removing the defect identified.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.	Yes	In order to maximise the benefit of P134, it is necessary to cease incurring costs as soon as possible following the decision by Ofgem: the period recommended by the Panel is consistent with this objective.
4.	Are there any further comments on P134 that you wish to make?	No	

### **P134\_DR\_014 – Scottish and Southern**

**This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd. and SSE Energy Supply Ltd.**

In relation to the four questions listed in the Consultation Paper, contained within your note of 24th July 2003 concerning Modification Proposal P134, we have the following comments to make:-

**Q1 Do you agree with the Panel's views on P134 and the provisional recommendation to the Authority contained in the draft Modification Report that P134 should be made? Please give rationale.**

Yes. We believe that Modification Proposal P134 should be made. For the avoidance of doubt, we agree with the comments attributed to the Proposer and the Panel in Section 2 of the Consultation Paper in support of Modification Proposal P134 being made.

Following the clear statement from the Department of Trade & Industry, in respect of zonal losses, on 27th June 2003, it is clear that zonal losses will not be included in BETTA Go-Live. Given the considerable resources (and associated costs) that Ofgem, Elexon, the DTI, Parliament and market participants are committing to prepare for BETTA Go-Live from April 2005, it is clear that the work (and associated costs) surrounding the implementation of Modification Proposal P82 will only last for a maximum of one year; i.e. April 2004 to March 2005.

Given the Ofgem cost/benefits analysis associated with zonal losses, and the Elexon cost/benefits analysis associated with Modification Proposal P82, it is clear that the considerable costs will not be outweighed by the benefits over such a short; i.e. one year; period. Given this it is now appropriate that all work associated with Modification Proposal P82 be halted at the soonest possible moment.

In regard to the comments made concerning the "minded to" statement from the Department of Trade & Industry, we believe this statement provides as sufficient a degree of certainty of BETTA happening as those other statements published Government, in respect of BETTA, and upon which considerable expenditure is being spent by Ofgem, Elexon and market participants to prepare for BETTA Go-Live. We expect that the Panel and the Authority will give due regard to the comments made by a representative of the DTI (at the request of the BSC Panel Chairman) to the July Panel meeting, with regard to what "minded to" meant, namely that the department believe that "minded to" is a definite indication that this is their intention; i.e. that BETTA will happen in the timescales indicated by the Government and signed onto by the Authority.

In respect of the comments attributed to the Authority in Section 1.6 of the Consultation Paper; that the BETTA arrangements have not yet attained a sufficient degree of certainty to enable it to influence the progression of Modification Proposals through the Modification Procedures set out under the Code; how is this to be reconciled with the Authority's approval of Modification Proposal P108, which is entitled "Modification to enable BSCCo to prepare for the implementation of British Electricity Trading and Transmission Arrangements (BETTA)"?

In the light of recent developments it appears that the time may now be right for the Authority to now review the legal advice it received prior to issuing its 17th January 2003 letter.

**Q2 Do you agree with the Panel's view that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.**

Yes. The essence of the draft legal text (to return the Code to its pre Modification Proposal P82 state) appears correct.

**Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P134? Please give rationale.**

We agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in the Modification Report. Two working days is appropriate given the significant financial impact that any delay would have.

**Q4 Are there any further comments on P134 that you wish to make?**

We have no further comments at this time.

regards

Garth Graham  
Scottish and Southern Energy plc

**ANNEX 4 TRANSMISSION COMPANY ANALYSIS**

None commissioned.

**ANNEX 5 BSC AGENT IMPACT ASSESSMENTS**

None commissioned.

**ANNEX 6 PARTY IMPACT ASSESSMENTS**

None commissioned.

**ANNEX 7 COST BENEFIT ANALYSIS**

None commissioned.

**ANNEX 8 CORE INDUSTRY DOCUMENT OWNER IMPACT ASSESSMENTS**

None commissioned.

**ANNEX 9 PROPOSED TEXT TO MODIFY BSCCO MEMORANDUM AND ARTICLES OF ASSOCIATION**

No impact identified.

**ANNEX 10 TERMS OF REFERENCE AND REPORT/ANALYSIS OF EXTERNAL CONSULTANTS/ADVISORS**

No external consultations/advisors commissioned.