

Modification Proposal

MP No: P134

(mandatory by BSCCo)

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

The Halting Of Unnecessary And Inefficient Work And Expenditure Associated With Approved Bsc Modification P82.

Submission Date *(mandatory by proposer):* 30 June 2003

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

Halt all work and expenditure to implement approved BSC Modification P82 with immediate effect. Undo all intended BSC documentation, system and process changes associated with Modification P82, such that no changes are intended to be made in connection with P82.

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

The conclusion of the Dti January 2003 Consultation "Transmission losses in a GB electricity market" published on 27th June 2003 is that "the Secretary of State and the Minister for Energy, E-Commerce and Postal Services, Stephen Timms are not minded to designate Average Zonal Transmission Losses as part of the GB BSC". If Modification P82 is implemented on 1 April 2004 and operates only for 12 months until BETTA is introduced, from which point locational Transmission Loss charging is removed, the balance of cost and claimed benefit of approved Modification P82 are significantly changed, and the basis of the original Authority direction is significantly changed. On the basis that the claimed net benefits of implementation of P82 as an enduring change were not clearly demonstrated, it is extremely unlikely that net benefit will be achieved by implementing P82 for a few months until BETTA is introduced.

Provided work and expenditure is halted quickly, and thereby industry costs may be saved, then reversion of the BSC to its state without implementation of P82 will better meet BSC Objectives (b) The efficient, 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.

Impact on Code *(optional by proposer):*

See P82 implementation.

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

See P82 implementation.

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

See P82 implementation.

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

Modification Proposal

MP No: P134

(mandatory by BSCCo)

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

Ofgem approved BSC Modification Proposal P82 on 17 January 2003, with an intended implementation date of 1 April 2004. The BSC Panel had recommended that the modification should not be made. This was also the view of a majority of consultation respondents. A major concern of the modification group, the Panel and respondents was that the claimed benefits of the proposal had not been demonstrated to exceed the total implementation and operating costs.

The conclusion of the Dti January 2003 Consultation "Transmission losses in a GB electricity market" published on 27th June 2003 is that "the Secretary of State and the Minister for Energy, E-Commerce and Postal Services, Stephen Timms, are not minded to designate Average Zonal Transmission Losses as part of the GB BSC". If Modification P82 is implemented on 1 April 2004 and operates only 12 months until BETTA is introduced when locational Transmission Loss charging is removed, the balance of cost and claimed benefit of approved Modification P82 are significantly changed, and the basis of the original Authority direction is significantly changed. On the basis that the claimed net benefits of implementation of P82 as an enduring change were not clearly demonstrated, it is extremely unlikely that net benefit will be achieved by implementing P82 for a few months until BETTA is introduced when locational transmission loss charging will be removed in accordance with Dti consultation conclusions.

Provided work and expenditure is halted quickly, and thereby industry costs may be saved, then reversion of the BSC to its state without implementation of P82 will better meet the BSC Objectives (b) The efficient, 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 following are extracted from the Authority decision letter approving Modification P82:

Respondent views: "Most of the respondents opposed to both the original Modification Proposal and the Alternative Modification Proposal considered that the costs of its implementation could outweigh any benefits that might be delivered, since any perceived net benefit had not been proven. Respondents were also concerned that no significant cost benefit analysis had been carried out.

Panel views: "The Panel was of the opinion that it had not been proven that zonal differentiation would result in a more accurate allocation of the cost of losses. In addition, the Panel considered that, on balance, the effect of any gains in the accuracy of cost allocation would be outweighed by the industry-wide costs associated with implementation of the original Modification Proposal."

"The Panel recommended that the Authority should reject both the original Modification Proposal and the Alternative Modification Proposal."

Authority view: "Ofgem considers, on balance and without limitation, that the most significant benefit arises in relation to Applicable BSC Objective (b)."

"The introduction of zonal transmission losses will therefore enhance efficiency through more cost reflective charging which could be expected to influence both short and long term business decisions. This enhanced efficiency is of particular importance over the next 20 years given the potential major changes in the type and distribution of plant, especially as a result of the government's climate change commitments. The implementation of this Modification Proposal will therefore better facilitate the achievement of the Applicable BSC Objective (b)."

"The benefits of removing market distortions, such as uniform losses, are generally difficult to quantify, since they depend upon the uncertain and unknowable evolution of the relevant market, including in this case transmission system conditions. As the Panel noted, any calculation is highly dependent on the assumptions made. A variety of commentators have looked at quantifying the benefits of more locational charging for transmission losses. For a scheme of this nature commentators estimated short run benefits in the range of £0.2m p/a to more than £1.5m p/a."

Modification Proposal

MP No: P134
(mandatory by BSCCo)

Details of Proposer:

Name: John Capener

Organisation: British Energy Power & Energy Trading Ltd

Telephone Number: 01452 654182

Email Address: john.capener@british-energy.com

Details of Proposer's Representative:

Name: Martin Mate

Organisation: British Energy Power & Energy Trading Ltd

Telephone Number: 01452 654366

Email Address: martin.mate@british-energy.com

Details of Representative's Alternate:

Name: Rachel Lockley

Organisation: British Energy Power & Energy Trading Ltd

Telephone Number: 01452 652972

Email Address: rachel.lockley@british-energy.com

Attachments: NO

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