

Report Phase Consultation Responses: P286 'Revised treatment of RCRC for generation BM Units'

Consultation issued on 23 October 2012

We received responses from the following Parties

Company	No BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
TMA Data Management Ltd	0 / 1	Party Agent
SmartestEnergy Ltd	1 / 0	Supplier / Consolidator / Trader
SONI Ltd (System Operator for Northern Ireland)	1 / 0	Interconnector Administrator / Interconnector Error Administrator
Eggborough Power Limited (EPL)	1 / 0	Generator
RWE Supply & Trading GmbH	10 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent
National Grid Electricity Transmission Ltd	1 / 0	Transmission Company
Drax Power Limited	1 / 0	Generator
IBM UK Ltd for and on behalf of the ScottishPower Group	7 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
E.ON	5 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator
Centrica	13 / 0	Generator / Trader / Supplier / BSC Party
EDF Energy (late response)	10 / 0	Generator / Supplier / Party Agent / Consolidator / Exemptable Generator / Trader

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

P286
Report Phase Consultation Responses

28 November 2012

Version 2.0

Page 1 of 14

© ELEXON Limited 2012

Question 1: Do you agree with the Panel's initial recommendation that P286 should be approved?

Summary

Yes	No	Neutral/No Comment
8	3	0

Responses

Respondent	Response	Rationale
TMA Data Management Ltd	No	It would be more appropriate to reject P286 and let the matter be reviewed as part of the SCR.
SmartestEnergy Ltd	No	<p>Regardless of the flow of payments which result from RCRC we do not agree with the premise underlying this proposal. Whilst there is a correlation between BSUoS and RCRC, the real relationship is between cash-out and RCRC. The correlation exists between BSUoS and RCRC because it is the same generators providing balancing services into the energy and system markets; obviously the prices will track each other, otherwise generators would not be trading efficiently. We are not convinced that there is such a degree of pollution as to be a cause of much of the correlation at all.</p> <p>If a participant is subject to cash-out, they should also be subject to RCRC. We agree with the view that "BSUoS and RCRC are separate cashflows and that changes to the allocation of RCRC under the BSC are not needed in response to the proposed changes to BSUoS allocation under the CUSC [and that] the BSUoS charge is a cost-recovery mechanism levied by the System Operator in order to recover the costs incurred in balancing the system. This charge is not comprised solely of the costs of energy balancing actions, but also includes actions taken to alleviate system constraints as well as ancillary service charges, neither of which are related to imbalance."</p> <p>Indeed, if there is an issue of pollution of energy costs within BSUoS, this should be dealt with under the CUSC/the Balancing SCR and not in the BSC.</p>
SONI Ltd (System Operator for Northern Ireland)	Yes	As the energy balancing costs recovered through BSUoS are normally distributed to BSC Parties through the RCRC, it would naturally follow that with the removal of BSUoS charges from Generation BM Units, RCRC should also be removed, as both charges are related.

Respondent	Response	Rationale
		Furthermore, it is more appropriate to align Parties subject to BSUoS charges with those that are also subject to RCRC charges.
Eggborough Power Limited (EPL)	Yes	<p>Eggborough Power believes that the modification will better fulfil BSC objective (C) by promoting cross border competition within the EU. As most generators in the EU do not pay these types of system charges, which are ultimately passed to customers through wholesale power prices, the modification would place UK generators on a more level playing field so as cross-border trading increase the level of competition will be enhanced.</p> <p>It will also better fulfil objective (d) as it will be more efficient for the market as a whole that, if CMP201 is implemented, that the cash-flows associated with BSUoS and RCRC move between offtaking units only. Though we recognise this modification has been sent back to NGET and is not a perfect solution, it would be more efficient than no change at all.</p>
RWE Supply & Trading GmbH	No	We do not believe that the proposal better meets the BSC Objectives. RCRC is a product of the Energy Imbalance charges. Consequently RCRC should apply to all parties that contribute to the EIC. We are concerned that removal of RCRC from generation BM Units will have an impact on incentives to balance, The proposal will also create windfall gains and losses for demand BMUs that relates to imbalances over which they have no control.
National Grid Electricity Transmission Ltd	Yes	<p>For the reasons set out by the Workgroup and discussed by the Panel, we believe that P286 better meets the applicable objectives (a), (b) and (c) and thus we agree with the Panel's recommendation.</p> <p>We would note however, that the Authority decision on P286 should be aligned with that on the corresponding CUSC proposal (CMP201).</p>
Drax Power Limited	Yes	<p>We agree with the Panel's initial view that P286 better facilitates Applicable BSC Objectives (a), (b) and (c). In particular:</p> <ul style="list-style-type: none"> Against Applicable BSC Objective (a), P286 takes into consideration National Grid's obligations to account for developments arising from European legislation and ensures that appropriate financial BSC arrangements are in place (while noting that P286 has not itself arisen from any European legislation, it has been raised in

Respondent	Response	Rationale
		<p>response to P285, which is related to European legislation).</p> <ul style="list-style-type: none"> Against Applicable BSC Objective (b), implementing CMP201 without implementing P286 may reduce Parties' incentive to balance. This would make it harder for the System Operator to balance the system. Against Applicable BSC Objective (c), P286 aligns RCRC beneficiaries with those that are liable for BSUoS permitting trade across Interconnectors to be based on price differentials, undistorted by RCRC charges/payments. It also prevents generators from receiving windfall gains and losses that would arise from being liable for RCRC but not liable for BSUoS. Finally, the change would allow GB generators to compete on an equivalent basis with generation imported into GB across an Interconnector. This would better facilitate more efficient competition in generation and supply.
IBM UK Ltd for and on behalf of the ScottishPower Group	Yes	<p>ScottishPower agrees with the Panel's majority view that this modification would better facilitate Applicable BSC Objectives (a), (b) and (c). However, this is only on the basis that the corresponding changes in CMP201 are also approved.</p> <p>With CMP201 approved, we continue to believe that this modification would:-</p> <ul style="list-style-type: none"> Alleviate any potential anomalous situation and remove any potential windfall gains or losses for generators; and Means that the incentive to balance for generators is improved, potentially resulting in lower costs and fewer system operator actions in balancing the system.
E.ON	Yes	<p>If CMP201 is approved P286 should also be implemented, to redress the anomalous situation that would otherwise arise where generators were not responsible for BSUoS charges but were receiving a share of rrcr.</p>
Centrica	Yes	<p>If modification CMP201 is agreed then this modification aligns RCRC beneficiaries with those that are liable for BSUoS (c). Agreement with this modification is contingent on modification CMP201</p>

Respondent	Response	Rationale
		being accepted.
EDF Energy (late response)	Yes	<p>If CMP201 is approved, then it would better meet BSC Objectives for P286 to be approved and implemented at the same time. If CMP201 is not approved, then P286 would not better meet BSC Objectives.</p> <p>This opinion is based on a view that RCRC is only one part of a wider settlement process by which energy balancing costs (but not other balancing costs) are recovered from energy imbalance parties, with surplus or deficit amounts (created by features of the arrangements) shared between all volumes delivering to (generating), or offtaking from (demand), the system (subject to changes brought by CMP202). The mechanism spans different governances and is split between BSUoS and RCRC only for historical and practical reasons. The opinion is independent of any view whether CMP201 itself meets wider objectives. It is assumed that if CMP201 is approved, its benefits are assumed to outweigh its disadvantages.</p> <p>The current arrangements achieve the overall aim described above by making all delivery and offtake volumes liable for both BSUoS and RCRC, so all volumes act as an intermediary for the transfer of imbalance charges to balancing providers, with any net surplus or deficit amount automatically shared between all volumes. Surpluses and deficits arise both from imbalance charging (due to dual imbalance price not based on a cleared price, together with mandatory gross balancing, and imperfect tagging of non-energy actions in formulating price) and energy balancing costs (due to pay-at-bid rather than a cleared price, and imperfect tagging). The existence of surpluses or deficits cannot definitively be ascribed to one or the other side of the settlement of balancing and imbalance. There might be arguments that surpluses and deficits could be allocated differently, for example to imbalance parties or to balancing providers, rather than all volumes (subject to distinctions between interconnectors and non-interconnectors under CMP202 and P285) or all offtakers (as under CMP201 with P286, subject to CMP202/P285), but these alternative allocations are outside the scope of P286.</p> <p>If the allocation of only one of BSUoS and RCRC were to be changed, the reasonably equitable process of settling imbalance with balancing would break down:</p>

Respondent	Response	Rationale
		<p>a) If there were no surplus or deficit of energy balancing costs with imbalance charges, a different allocation in BSUoS from that in RCRC would result in different volumes being subject to different proportions of the overall costs/revenues of balancing and imbalance depending on the system direction.</p> <p>b) If there were a net surplus or deficit of balancing costs and energy imbalance charges, it would be shared between different volumes depending on the system direction.</p> <p>In each case, there is potential to create arbitrary differences in cost allocation between volumes. This would distort competition.</p> <p>If there were differences in the charging base for BSUoS and RCRC, the direction of any value transfer in any particular half-hour is uncertain, because it would depend on the directions and sizes of imbalances and balancing actions. However, this uncertainty doesn't obviously justify such an allocation of costs and revenues.</p> <p>For example, consider a short system where imbalance charges happen to match energy balancing costs. With CMP201, without P286, offtakers would collectively pay all the energy balancing costs in BSUoS, while all volumes, offtake and delivery, would share the imbalance revenue in RCRC, with only 50% going to offtakers. Overall, offtakers would <u>pay</u> more, deliverers pay less, than currently. In an equivalent long system, offtakers would collectively receive all energy balancing revenue indirectly via BSUoS from balancing providers, while all volumes would pay in RCRC for spill payments to parties that were long, with only 50% from offtakers. Offtakers pay less, deliverers pay more, than currently. It could be suggested that on average, as the system fluctuates between long and short, the inequalities would cancel, but this assumes certain net imbalance behaviours. It could be argued that the unequal allocation would increase the incentive on offtakers to avoid a short system where they receive less RCRC revenue than they pay in energy BSUoS, compared with a long system where they would pay less in RCRC charges than they receive in energy BSUoS. However, the opposite applies to deliverers, and this is not a rational bias in balancing incentive between offtakers and deliverers. Aligning the cost bases for</p>

Respondent	Response	Rationale
		<p>BSUoS and RCRC would ensure that the corresponding amounts cancel, for whoever is the intermediary for the collective payments, leaving just incentives created by imbalance charges, as at present.</p> <p>Under current arrangements, imbalance charges typically exceed energy balancing costs in a short system, with parties receiving more in RCRC than they pay in energy BSUoS charges (a form of surplus). In a long system, spill imbalance payout is less than balancing receipts so parties pay less in RCRC than they receive from energy BSUoS (another surplus). Particular circumstances can give different outcomes, but the current arrangements tend to give this outcome. Currently, without CMP201 or P286 (but subject to CMP202 and potentially P285), all volumes are subject to BSUoS and RCRC, so the surplus (or deficit) is shared equally between all volumes at all times.</p> <p>With CMP201, without P286, allocation of the surplus would change. When the system is short, Offtakers would instead pay 100% energy BSUoS, and as currently receive 50% of Residual Cashflow. 50% of residual cashflow is typically greater in magnitude than 50% of net energy balancing costs, so the net charge on offtakers would increase, but an overall balance/imbalance surplus would reduce the increase. Deliverers would have a reduced net charge (probably a receipt). When the system is long, offtakers would receive 100% of energy BSUoS receipts, and pay 50% of Residual Cashflow. 50% of residual cashflow is typically less than 50% of energy balancing receipts, and likely to give a larger net receipt for offtakers, even larger than when there is no surplus. Deliverers would have an increased charge. Allocation of the "surplus" reduces the extra charges for offtakers in a short system and for deliverers in a long system. It could reduce the small incentive created for offtakers to seek a long system and deliverers to seek a short system, but not remove it. However, as before this is not a rational bias in balancing incentive between offtakers and deliverers.</p> <p>In each case, P286 would remove the anomalous mismatch of shared amounts, leaving just the surplus (or deficit) to be allocated to offtakers. When the system is short, this is likely to be a benefit, concentrated on offtakers instead of all volumes as at</p>

Respondent	Response	Rationale
		<p>present. When the system is long, it is also likely to be a benefit, also concentrated on offtakers instead of all volumes as at present. Offtakers would benefit from the surpluses created by the balancing/imbalance arrangements, instead of sharing with deliverers, but no new artificial incentives on the direction of system length would be created.</p> <p>CMP201 would increase total BSUoS charges for offtakers, whether the system is short or long. P286 tends to reduce the overall effect of CMP201 by allocating balance/imbalance surpluses entirely to offtakers, but does so in a rational manner, consistent with the apparent intention of CMP201. In an idealised cleared balance/imbalance mechanism, there would be no surplus.</p> <p>While BSUoS and RCRC exist as separate parts of an overall mechanism, instead of a single net charge, any mismatch in the charge base can create transfers between volumes that are not cost-reflective. Unless they meet some other explicit regulatory objective, they can be considered anti-competitive.</p> <p>Maintaining alignment of BSUoS and RCRC should therefore better meet BSC Objective (c) concerning competition. Therefore BSC objective (c) would be better met by P286 if CMP201 is approved, and would not be better met by P286 if CMP201 is rejected.</p> <p>Small changes in incentives to balance would occur if CMP201 alone is approved, due to a small shift in allocation of balancing and imbalance amounts between different volumes. Similarly, small (and opposite) changes in incentives to balance would occur if P286 alone is approved. Because changes in net balance position tend naturally to have opposing effects on BSUoS and RCRC, then maintaining alignment of the cost-base for BSUoS and RCRC should minimise distorting impacts on incentives to balance. We have not considered in detail here the potential impacts of CMP201 itself on balancing incentives, but note that changes to the allocation of surpluses and deficits created by the current arrangements could potentially alter them. For example, in the examples given above, the incentive on offtakers to avoid short positions or go longer could be slightly increased, and vice versa for deliverers, but not in a rational cost-reflective manner, and P286 would tend to neutralise this effect.</p>

Respondent	Response	Rationale
		<p>The costs for implementing P286 would not result in future process efficiency, therefore there is no obvious benefit against BSC Objective (d), except maintaining the simplicity in principle of the overall arrangements.</p> <p>There is no obvious requirement of EU obligations to distort the charging for energy imbalance and the recovery of energy balancing costs (albeit that transmission loss energy and all BSUoS charges including energy balancing costs have apparently been deemed to be network charges for the purposes of cross-border trade on interconnectors). Therefore it appears consistent with EU obligations, and therefore with BSC Objective (e), for the current matched settlement of energy BSUoS and RCRC in relation to energy balancing and imbalance to continue, even if changes are made to other elements of charging for balancing services to meet wider EU objectives.</p> <p>Changes to incentives to balance if CMP201 is approved are a matter for CMP201. If P286 were implemented in isolation from CMP201, it is difficult to see how the distortion in overall allocation of balancing/imbalance costs would better meet BSC Objective (b) concerning efficiency of system operation. If P286 and CMP201 were to be implemented together, the distorting effect of each on the allocation of overall balancing/imbalance costs should be minimised.</p> <p>Overall, we think BSC Objectives would be better met by aligning the allocation of aggregate energy balancing costs in BSUoS with those of aggregate imbalance charges in RCRC. If CMP201 is approved and implemented, P286 should also be approved and implemented. If CMP201 is rejected, P286 should also be rejected.</p>

Question 2: Do you agree with the Panel's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment
8	2	1

Responses

Respondent	Response	Rationale
TMA Data Management Ltd	-	-
SmartestEnergy Ltd	No	-
SONI Ltd (System Operator for Northern Ireland)	Yes	This should be implemented at the earliest possible date.
Eggborough Power Limited (EPL)	No	EPL believes that this change should be made a year earlier to reduce competitive distortions as soon as possible. We are also concerned that hard wiring a date may create problems with implementation or any agreed BSUoS changes. However, if a date must be given we believe 2014 should be achievable if a decision is made in 2013, unless made very late in the year.
RWE Supply & Trading GmbH	Yes	-
National Grid Electricity Transmission Ltd	Yes	Acknowledging Ofgem have the ability to request revised implementation dates then the Implementation Date proposed seemed reasonable given the CUSC Workgroup's majority position relating to the corresponding CUSC proposal (CMP201).
Drax Power Limited	Yes	We agree with the Workgroup that P286 should only be implemented if CMP201 is approved and that P286 should have the same Implementation Date as that for CMP201. P286 is only valid in this context. It also appears that the implementation dates suggested minimise the cost of implementation. As such we agree with the Panel's recommendation.
IBM UK Ltd for and on behalf of the	Yes	ScottishPower agrees that P286 should be implemented at the same time as CMP201 otherwise, the potentially anomalous situation, which this

Respondent	Response	Rationale
ScottishPower Group		modification tries to alleviate, would exist.
E.ON	Yes	P286 should be implemented alongside CMP201 if the latter is approved.
Centrica	Yes	-
EDF Energy (late response)	Yes	Implementation at the same time as CMP201, and only if CMP201 is implemented, would maintain consistency across the balancing and settlement arrangements. A long notice period would help to mitigate the windfall gains and losses for existing long term contracts between parties, and between parties and consumers.

Question 3: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P286?

Summary

Yes	No	Neutral/No Comment
9	0	2

Responses

Respondent	Response	Rationale
TMA Data Management Ltd	-	-
SmartestEnergy Ltd	-	No comment
SONI Ltd (System Operator for Northern Ireland)	Yes	The redlined changes to the BSC deliver the intention of P286.
Eggborough Power Limited (EPL)	Yes	-
RWE Supply & Trading GmbH	Yes	-
National Grid Electricity Transmission Ltd	Yes	As per assessment response, the proposed legal text appears to meet the proposal's objective.
Drax Power Limited	Yes	We believe it does.
IBM UK Ltd for and on behalf of the ScottishPower Group	Yes	The draft legal text appears appropriate.
E.ON	Yes	-
Centrica	Yes	-
EDF Energy (late response)	Yes	-

Question 4: Do you have any further comments on P286?

Summary

Yes	No
4	7

Responses

Respondent	Response	Rationale
TMA Data Management Ltd	No	-
SmartestEnergy Ltd	No	-
SONI Ltd (System Operator for Northern Ireland)	Yes	If Recommendation P286 is approved and implemented, it would be beneficial to monitor energy imbalances to ensure that with the removal of RCRC, they do not increase due to a lack of incentive to balance.
Eggborough Power Limited (EPL)	No	-
RWE Supply & Trading GmbH	No	-
National Grid Electricity Transmission Ltd	No	-
Drax Power Limited	No	-
IBM UK Ltd for and on behalf of the ScottishPower Group	Yes	ScottishPower expects the Authority to consider this modification in a wider context, along with CMP201, rather than on its own, as the impact of this modification is contingent on the impact of CMP201.
E.ON	No	-
Centrica	Yes	We are currently investigating with Elexon the net current RCRC calculations and net impact of P286 figures set out in the table starting on page 2 of the report. This investigation is concerned with the understanding of how these figures have been calculated and therefore the impact of this modification to individual BSC Parties. So although we agree in principle to the implementation of this proposed modification, we may have some

Respondent	Response	Rationale
		reservations over the detailed impacts contained in the document.
EDF Energy (late response)	Yes	<ol style="list-style-type: none"> 1. As the level of licence-exempt embedded generation rises, the volume in BM Units within offtaking Trading Units will fall (as will the volume required from remaining BM Units in delivering Trading Units). This will increase the volatility of the transfer amounts represented by RCRC (and BSUoS). 2. The intention of CMP201 and CMP202 is to exempt certain classes of user of the GB system from liability for [all] BSUoS charges. The intention of P286 and P285 is to make changes to BSC settlement to maintain consistency of overall energy balancing/imbalance given that part of the settlement is undertaken through energy balancing charges within BSUoS. If the changes to BSUoS are considered valid, then changes to some elements of BSCCo cost recovery, particularly those funding shares currently levied on a very similar basis as BSUoS and RCRC, might also be considered valid, and would maintain consistency across the balancing and settlement arrangements. 3. Ofgem's Electricity Balancing Significant Code Review has potential to change the relative levels of energy balancing costs, imbalance charges, surpluses or deficits, and their allocation. This could alter the materialities inherent in P286.