

Reference:



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Dear Anna

ELEXON Response to the Ofgem/BERR Consultation on Distributed Energy – Initial Proposals for More Flexible Market and Licensing Arrangements (Ref 295/07)

ELEXON welcomes the opportunity to comment on Ofgem and BERR's initial proposals for more flexible market and licensing arrangements to facilitate Distributed Energy (DE). This response focuses on the areas of the consultation document that have possible consequences for the Balancing and Settlement Code (BSC).

Chapter 3 – Wholesale Market Trading

This chapter raises points around increasing DE involvement in the BSC governance processes. The consultation document states that many DE schemes are not signatories to the BSC and therefore they do not have the power to raise modifications. We acknowledge that this is the case. However, as stated in the consultation document, Section F2.1.1(c) does allow the Authority to designate bodies representatives of interested third parties as having the power to raise modifications.

We are conscious that DE schemes may feel they cannot influence changes that are raised by BSC Parties. The majority of modifications to the BSC are assessed by a Modification Group comprising industry members with knowledge and expertise relating to the subject being discussed. These members are required to act impartially and do not have to be employed by BSC Parties. Where appropriate, the BSC Panel encourages interested parties to participate in the assessment of BSC modifications through attendance at the open meetings, by becoming a member of the Modification Group, or by responding to consultations issued by ELEXON on behalf of the Modification Group. Every effort is made to incorporate comments into the final reports, and all formal responses are published and provided to the Panel and the Authority. In addition interested parties may wish to keep Panel Members and ELEXON informed of their concerns.

The consultation document also refers to the Panel Chairman's ability to appoint an additional industry Panel Member in accordance with paragraph B2.6.1 of the BSC which allows the Panel Chairman to appoint a further Panel Member if he believes there is a class or category of person generating or supplying electricity in Great Britain whose members are exempt from the requirement to hold a Licence and who have interests in respect of the BSC but those interests are not reflected in the composition of the Panel. All Panel Members (including the industry and energywatch appointees) are obliged to act impartially and do not represent particular classes of industry participant. Therefore, should the Panel Chairman appoint an additional Panel Member with specific knowledge relating to license exempt participants in accordance with section B2.6.1, this member would not be acting as a representative, although they could apply their expertise in DE when assessing modifications and other Panel business. No modification to the current BSC provisions would be required for such an appointment.

Notwithstanding the impartiality requirement for Panel Members, there are provisions within BSC Section B2.13 for a distribution-representative body approved by the Authority to appoint a Distribution System Operator (DSO) representative to attend and speak at Panel meetings; this representative is not a Panel Member and does not have a vote. Similar provisions apply to representatives of the Authority. It would be helpful to have clarification on whether the Distributed Energy representative referred to in the consultation document would fall in to a similar category or whether he/she would become a Panel Member with full voting rights and an obligation to comply with impartiality requirements within the Code.

The BSC Panel Chairman did consider the appointment of a sixth Industry Panel Member to reflect the interests of this general area after the 2006 election. However, there was limited interest in the role, not least because those parties contacted felt that their interests were already being reflected through the elected 2006-8 Panel Members. In addition, they felt that most of the Panel business would not be of any interest.

The consultation also raises the possibility of payment through the BSC for DE Panel Members. Funding through the BSC is only possible at present for the two independent Panel Members appointed by the BSC Panel Chairman in accordance with Section B2.5. These Panel Members must have no industry affiliations which may conflict with their independence. A modification would be required to provide funding for any additional Panel Members.

The consultation asks whether there are further ways to address the risk DE schemes are exposed to when trading in wholesale markets, noting the work currently being undertaken by the Issue 30 'Cash Out Review' Group. Issue 30 was raised to consider the principles relating to the various elements of the cashout arrangements although not specifically its impact on DE. Discussions have now concluded and final report will be provided to the April Panel meeting. In addition, three modification proposals have recently been assessed which would impact the way imbalance prices are calculated: P211 'Main Imbalance Price based on Ex-Post Unconstrained Schedule'; P212 'Main Imbalance Price based on Market Reference Price' and P217 'Revised Tagging Process and Calculation of Cash Out Prices'. P211 is currently pending Authority decision, whilst P217 is still being assessed. The Modification Report for P217 will be submitted to the Authority following the July Panel meeting

Chapter 4 – Selling to Third Parties

The consultation document refers to barriers to entry with respect to market rules. Since NETA Go Live the Code has been modified to address some of the areas highlighted and more streamlined processes have been adopted, for example with regard to market entry where the introduction of a new set of Qualification procedures that can be amended to suit the risk that the participant actually poses to the industry. The cost of the Qualification process has also been set to zero, with all BSC Parties paying a share of the actual costs. The BSC has been reviewed to identify and remove potential barriers to smart metering. All BSC Parties are offered an Operational Support Manager when they first participate in the BSC to help explain the BSC rules and processes. We acknowledge that there are still improvements to be made to areas that lie within ELEXON's remit; we have recently initiated a review of the documents relating to the change process to ensure that we produce plain English reports relevant to target audiences. We are willing to explain the BSC procedures and talk through modifications with people on request. We would welcome any further suggestions as to how we can help in terms of making the BSC more accessible to participants lacking the resource to become more closely involved in these processes.

The consultation proposes the introduction of a Specialist Energy Trader. We assume there will be no impact on the BSC as a result of this as there are analogies with existing roles under the BSC but would be happy to discuss this further.

In respect of a dedicated wholesale market, the consultation document refers to two options. The first option is to introduce a market to trade energy contracts between small generators and suppliers. We assume that this would not directly impact the BSC as these energy contracts would represent bilateral trades between parties outside the BSC.

The second option to extend the role of the Balancing Mechanism to that of a Balancing Market would potentially have a significant impact on the BSC together with impacts on other industry codes. We would be happy to participate in any further consideration of this.

Chapter 5 – Operating as an Exempt Supplier on a Licensed Distribution Network

The consultation document refers to the calculation of Line Loss Factors (LLF) and states that applying different LLFs to Import and Export at the same site reduces the embedded benefits received by a DE scheme. Modification Proposal P216 'Audit of LLF Production' seeks to introduce high level principles by which LLFs should be calculated. One of the principles is that Import and Export Metering Systems at the same site should have the same LLFs, provided the values are calculated on a generic basis (generic LLFs apply to small sites and should therefore cover DE). The earliest implementation for P216 allows LLFs calculated using the new rules to be entered into Settlement in April 2010. The documents relating to P216 can be found at:

<http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=236>

Another option within the consultation document was the introduction of Demand Balancing Mechanism Units (DBMUs) or Vertically Integrated Meter Point Administration Numbers (VIMPANs). These would allow demand and distributed generation within a single unit to be aggregated, so that schemes interact with the electricity system on a net basis. The introduction of VIMPANs would require a change to the definition of Metering System within the BSC and may impact on registration and meter operation activities. This would need to be assessed further in the context of a modification although we would be happy to carry out a preliminary assessment to inform further thinking in this area. The introduction of DBMUs could potentially be done without any changes to the BSC. Currently all Suppliers have a set of Base BMUs; one within each GSP Group. Suppliers can also choose to register Additional BMUs containing Metering Systems that they wish to be aggregated separately. Therefore a Supplier registering Metering Systems for a DE scheme could assign the relevant Metering Systems to a single Additional BMU. In addition, Parties can currently set up Trading Units to gain certain embedded benefits. Modification P100 'Extension of demand-side Trading Units in order to increase the competitiveness of the market for embedded benefits' was approved in order to allow DE to make use of this mechanism.

In summary, we don't see any fundamental obstacles within the BSC to introducing new mechanisms to facilitate access to the market by Licence Exempt Suppliers, but the Metering System and BM Unit registration issues raised would need to be assessed through the modification and change process.

Chapter 6 - Becoming a Licensed Supplier

The consultation document notes that it is currently possible for Licensed Suppliers to delegate obligations to third parties via bilateral contracts. Many Suppliers do use agents in

this way however the Supplier remains accountable for any non compliance with the BSC. If further provisions are included within the regulatory instruments, it would be helpful to understand whether there are implications for the BSC and in particular who is responsible for remedying any breach.

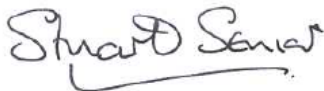
The consultation document highlights the Small Scale Third Party Generating Plant Limit (SSTPGPL) as a BSC requirement that may be relevant to DE. This has recently been considered by the CP Issue 2 'Review of Microgeneration Processes in the Code Subsidiary Documents' Group. However, the Group has recommended that the limit should not be amended at present as sufficient data is not available to accurately calculate what the limit should be¹ and that further consideration of the limit be deferred until after Modification Proposal P218 'Facilitating Microgeneration within the BSC' has concluded.

Conclusion

Finally, we would like to re-iterate that we would welcome any suggestion to improve those areas that are within the scope of ELEXON and the BSC Panel to change, and to participate in any further discussion on areas which have a potential impact on the BSC.

Should you wish to discuss any of the points raised in this submission, please contact either Sarah Jones (sarah.jones@elexon.co.uk) or Laone Roscorla (laone.roscorla@elexon.co.uk) in the first instance.

Yours sincerely



ELEXON Stuart Senior
Chief Executive

¹ [SVG Paper 85/04 – Review of the SSTPGPL](#)