

Modification proposal:	Balancing and Settlement Code (BSC) P286: Revised treatment of RCRC for generation BM Units		
Decision:	The Authority ¹ has decided to reject this proposal ²		
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties		
Date of publication:	2 October 2014	Implementation Date:	n/a

Background to the modification proposal

This modification has been raised due to a related modification to the Connection and Use of System Code (CUSC). CUSC Modification Proposal (CMP) 201³ was submitted to the Authority for decision on 9 May 2013. It proposed the removal of Balancing Services Use of System (BSUoS) charges from generation Balancing Mechanism (BM) units (defined as BM units that are in 'delivering Trading Units'⁴) in a given Settlement Period.⁵ If CMP201 was approved, this would result in a potentially anomalous situation where generating BSC parties would be subject to Residual Cash-flow Reallocation Cash-flow⁶ (RCRC) charges/payments from the settlement imbalance process but would not be subject to BSUoS charges/payments.

Modification proposal P286 ('the proposal') was brought forward to exclude BM Units that are in delivering Trading Units in a particular Settlement Period from RCRC charges/payments. Following a detailed Impact Assessment on CMP201,⁷ in which we set out that a decision on P286 would be dependent on the outcome of this CUSC modification, we have made a decision on CMP201 today.⁸ As a result we are also able to make a decision on P286.

The modification proposal

P286 was raised by NGET (the proposer). To address the situation that would be created by CMP201, the Credited Energy Volumes⁹ from generation BM Units would be excluded from the calculation of each party's Residual Cash-flow Reallocation Proportion (RCRP) under P286. As a result, generation BM Unit volumes would not be included in RCRP, and the share of the RCRC that would have been allocated to these generation volumes would instead be reallocated across the other BSC parties in proportion with their non-generation Credited Energy Volumes.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ CMP201 'Removal of BSUoS charges from generators' - <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP201/>

⁴ Trading units are defined in Annex K-2 of the Balancing and Settlement Code.

⁵ A period of 30 minutes beginning on the hour or the half-hour.

⁶ Residual Cashflow Reallocation Cashflow is determined in accordance with Section T4.10.3 of the Balancing and Settlement Code.

⁷ <https://www.ofgem.gov.uk/ofgem-publications/84353/impactassessmentbsuos081113.pdf>

⁸ The CMP201 decision letter is on our website at: <https://www.ofgem.gov.uk/licences-codes-and-standards/codes/electricity-codes/connection-and-use-system-code-cusc>

⁹ Credited Energy Volume is determined in accordance with Section T4.5.1 of the Balancing and Settlement Code.

P286 would not impact any reporting flows, such as the SAA-I014 flow,¹⁰ which would continue to report RCRP and RCRC values as currently. However, parties who only hold BM Units that are in delivering Trading Units would receive RCRP and RCRC values of zero following implementation of P286. Parties with BM Units that are in offtaking Trading Units would also see their RCRP values increase and therefore their RCRC values becoming scaled up. This would be as a consequence of the RCRC previously allocated to the volumes from delivering BM Units being reallocated in proportion to each party's offtaking BM Unit volumes.

The proposer believes that this modification will have a positive effect on applicable objectives (a) (b) and (c),¹¹ as set out in Standard Condition C3(3) of NGET's Transmission Licence.¹²

BSC Panel¹³ recommendation

The BSC Panel made its final recommendation on P286 on 13 December 2012. By majority, the Panel concluded that P286 does better facilitate the applicable BSC objectives, specifically objectives (a), (b) and (c), and therefore recommended that P286 is approved.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR)¹⁴ dated 18 December 2012. We have considered and taken into account the responses to Elexon's¹⁵ consultations on the modification proposal which are published along with the FMR.

We consider that the outcome of P286 is wholly dependent on the outcome of CMP201. In our decision letter on CMP201 issued today, we have set out the reasons for our decision to reject that modification proposal. We have therefore decided that implementation of modification proposal P286 will not better facilitate the achievement of the applicable objectives of the BSC.

Reasons for our decision

We have considered the views of the BSC Panel, the proposer and the respondents to the industry consultations. We consider that, in light of CMP201 not being implemented, the modification would have a negative impact on objectives (c) and (d) and a neutral impact on the other applicable objectives. We conclude therefore that P286 does not better facilitate the applicable BSC objectives.

¹⁰ This report contains information on the Settlement systems on a particular day, broken down into half hour Settlement Periods.

¹¹ In the proposal form the proposer set out that they considered objectives (a) and (c) to be better facilitated. During the assessment of P286 the proposer also considered that objective (b) was better facilitated by the proposal.

¹² Standard Licence Condition C3 of the Electricity Transmission Licence is available at: <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>

¹³ The BSC Panel is established and constituted pursuant and in accordance with Section B of the BSC and Standard Special Licence Condition C3 of the Electricity Transmission Licence.

¹⁴ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.co.uk

¹⁵ The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.

We note that the P286 work group's views that BSC objectives (a), (b) and (c) were better facilitated by the proposal were given before the decision on CMP201 had been made. The FMR states¹⁶ that the benefits identified were dependent on a scenario where CMP201 was accepted by the Authority.

Applicable objective (a) 'The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence'

The majority of the P286 work group agreed with the proposer that the proposal better facilitates objective (a), in that they felt it "takes into consideration National Grid's obligations to account for developments arising from European legislation, and ensure that appropriate financial BSC arrangements are in place."¹⁷ Although P286 has not itself arisen from any European legislation, we understand it was raised in response to P285¹⁸ which is related to European legislation.

P285 was raised alongside CMP202,¹⁹ in the same way that P286 has been raised alongside CMP201. P285 and CMP202 were raised to remove BSUoS and RCRC from electricity interconnectors and were both approved by the Authority. However, as CMP201 has now been rejected we do not consider that P286 has benefits against objective (a). To accept P286 on its own given CMP201's rejection would lead to similar outcomes that P286 was trying to resolve, whereby parties could be subject to BSUoS but not subject to RCRC.

Applicable objective (b) 'The efficient, economic and co-ordinated operation of the National Electricity Transmission System'

The P286 work group and BSC Panel considered that this proposal better facilitates objective (b). The reasoning given was that "implementing CMP201 without implementing P286 may reduce [BSC] Parties' incentive to balance. This would make it harder for the System Operator to balance the system."²⁰ As CMP201 has been rejected, we consider that this argument no longer stands. We note that if CMP201 had been approved there would be an impact on BSC parties' incentives to balance. However, whether this would increase or decrease parties' incentives to balance would depend on whether RCRC was a charge or a payment. Given that this could be either an increase or decrease in incentive and that RCRC is a small incentive in comparison to the incentive given by the cash-out price we consider this modification to be neutral on this objective.

Applicable objective (c) 'Promoting effective competition in the generation and supply of electricity and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity'

The proposer made a number of arguments for the better facilitation of objective (c), which were supported by the work group. The first being that "aligning RCRC beneficiaries with those that are liable for BSUoS permits trades across interconnectors to be based on price differentials, undistorted by RCRC charges/payments".²¹ This argument is valid only in a scenario where CMP201 was accepted. Now that the changes proposed

¹⁶ Pages 19 and 20 of the P286 Final Modification Report.

¹⁷ Page 19 of the P286 Final Modification Report.

¹⁸ P285 'Revised treatment of RCRC for Interconnector BM units' - <https://www.ofgem.gov.uk/ofgem-publications/61863/p285d.pdf>

¹⁹ CMP202 'Revised treatment of BSUoS charges for lead parties of Interconnector BM Units' - <https://www.ofgem.gov.uk/ofgem-publications/62082/cmp202-decision-letter.pdf>

²⁰ Page 19 of the P286 Final Modification Report.

²¹ Page 19 of the P286 Final Modification Report.

by CMP201 have not been consented to, there is no need for P286 to ensure that those liable for RCRC remain the same people liable for BSUoS. The second argument was that it “would prevent generators from receiving windfall gains or losses that would arise from being liable for RCRC but not liable for BSUoS.”²² Given that CMP201 has now been rejected these windfall gains could not occur. The final argument was that it “would allow GB generators to compete on an equal basis with generation imported into GB across an interconnector.”²³ Again this argument was made on the assumption that CMP201 was accepted.

We consider that approval of P286 would lead to an inefficient distribution of costs to BSC parties with generators and suppliers paying disproportionate amounts for the System Operator’s role of market balancing.

Applicable objective (d) ‘Promoting efficiency in the implementation of the balancing and settlement arrangements’

The proposer noted that this modification would have a neutral effect on objective (d). If CMP201 were to be approved this may be the case. However as CMP201 has been rejected, the approval of P286 would lead to a situation where the market arrangements would be split into delivering Trading Units and offtaking Trading Units which would be subject to different cashflows. We consider this to be inefficient implementation of the balancing and settlement arrangements.

P286 Implementation Date

In March 2014 we directed the BSC Panel to consult on revising the proposed implementation date for P286.²⁴ This was in order to enable us to make a decision on P286 in view of our decision on CMP201. In May 2014, the Panel agreed a revised proposed implementation date of 1 April 2017, if an Authority was made on or before 31 March 2015.²⁵ Given that we have decided to reject P286, this change of implementation date is no longer relevant.

Mark Copley

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Signed on behalf of the Authority and authorised for that purpose

²² Page 19 of the P286 Final Modification Report.

²³ Page 19 of the P286 Final Modification Report.

²⁴ <https://www.ofgem.gov.uk/publications-and-updates/balancing-and-settlement-code-bsc-p286-direction-bsc-panel-consult-revised-implementation-date-p286>

²⁵ http://www.elexon.co.uk/wp-content/uploads/2013/12/224_04_P286_Revised_Implementation_Date_v1.0.pdf