

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

Stage 01: Initial Written Assessment

P285 'Revised treatment of RCRC for Interconnector BM Units'

CUSC Modification Proposal (CMP) 202 is seeking to remove Balancing Services Use of System (BSUoS) charges/payments from Interconnector BM Units.

The BSC's Residual Cashflow Reallocation Cashflow (RCRC) can be considered as equal and opposite to BSUoS, and currently all Parties are equally exposed to both cashflows. P285 therefore proposes that Interconnector BM Units should be excluded from RCRC charges/payments.



ELEXON:

- Recommends a 4-month Assessment Procedure by a Workgroup



High Impact:

- Interconnector Users
- Interconnector Error Administrators
- Settlement Administration Agent (SAA)



Medium Impact:

- Other BSC Trading Parties



Low Impact:

- ELEXON

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About this Document

This document is an Initial Written Assessment (IWA), which ELEXON will present to the BSC Panel on 14 June 2012. The Panel will consider the recommendations and will agree how to progress P285.



Any questions?

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What is RCRC?

For each Settlement Period, each BSC Trading Party is charged or paid for any imbalance in each of their Energy Accounts. If they are short in an Energy Account (they sold/consumed more energy than they brought/generated), then they are charged for that shortfall at the System Buy Price (SBP). If they are long in an Energy Account (they brought/generated more energy than they sold/consumed), then they are paid for that excess energy at the System Sell Price (SSP).

It is normally the case that the total amount of money paid to Trading Parties who are long in a given Settlement Period will not equal the total amount of money recovered from Trading Parties who are short in that Settlement Period. However, it is a requirement that the net costs arising from Trading Charges is zero. Consequently, the net of these charges must be recovered from or redistributed to all Trading Parties in order to ensure that the total charges in that Settlement Period net to zero. This recovery or redistribution is settled through the Residual Cashflow Reallocation Cashflow (RCRC).

In order to allocate these net charges, a Residual Cashflow Reallocation Proportion (RCRP) is calculated for each Energy Account in each Settlement Period. This proportion is calculated as the Energy Account's Credited Energy Volumes as a proportion of the total Credited Energy Volume across the market in that Settlement Period. Each Party's RCRC payment/charge for that Settlement Period will then be the proportion of the residual cashflow equivalent to the sum of the RCRP of both their Energy Accounts.

It should be noted that RCRC represents the net money after the settlement of all Trading Charges – energy imbalances, the Balancing Mechanism payments and the System Operator BM Charge. However, the Balancing Mechanism payments and the System Operator BM Charge will always cancel each other out in a given Settlement Period. As a result, RCRC is generally formed only from the net of the imbalance charges in that Settlement Period.

How do RCRC and BSUoS interact?

The Balancing Services Use of System (BSUoS) charge is used to recover the costs incurred by the System Operator in balancing the system. These costs are generally formed from energy balancing costs, which are incurred through resolving the imbalances created by Parties failing to balance their positions, and system balancing costs, which are incurred through other activities such as managing transmission constraints. Like RCRC, these costs are recovered from or redistributed to Parties in proportion with their Credited Energy Volumes.

Both RCRC and BSUoS charges/payments arise from the need to resolve any imbalances that occur on the system. Consequently, there is a relationship between these two charges.

Consider the scenario where the market is short overall. In order to resolve this net imbalance, the System Operator will have needed to buy extra energy through Offers made by Parties. The cost of buying this extra energy is recovered from Parties through BSUoS. At the same time, the Parties who were short, and thus contributed to the market being short overall, will have been charged for their shortfall at SBP. These payments are redistributed to Parties through RCRC.

What is the issue?

A CUSC Modification Proposal is seeking to remove BSUoS charges from Interconnector BM Units. If approved, this would result in a potentially anomalous situation where Parties are liable for RCRC charges/payments but are not liable for BSUoS charges/payments.

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As the main imbalance price (SBP in this case)¹ is largely calculated from the costs incurred by the System Operator in accepting Bids and Offers, the amount of money recovered from Parties through BSUoS and the amount of money redistributed to Parties through RCRC will be similar. However, they will not be equal as the main imbalance price will not equal the average price of balancing actions (due to the flagging of system balancing actions, the tagging of arbitrage and de minimis trades and PAR tagging carried out as part of the calculation of the main imbalance price). Nevertheless, BSUoS and RCRC can be considered related and opposite cashflows, and Parties are usually only exposed to the net of these charges.

If, in the scenario above, the system was long overall, then the reverse situation would exist. The System Operator would accept Bids to resolve the imbalance, and the payments from these would be passed back to Parties through BSUoS. Consequently, SSP will be the main price, and the Parties who were long will be paid for their imbalance, the costs of which would be recovered from Parties through RCRC.

There is a second component of RCRC, which arises from offsetting any opposing imbalances that exist, for example when one Party is long and another Party is short by an equal amount. In this case, the System Operator will not have needed to take any action, as the two imbalances cancel each other out, and so there will be no resulting contribution to the BSUoS charge. However, as SBP will always be greater than or equal to SSP, the amount recovered in imbalance charges from the Party who was short will be more than the amount paid to the Party who was long. This means that there will be some additional residual cash left over that is redistributed to Parties through RCRC.

As the distribution of BSUoS and RCRC is based on Credited Energy Volumes, the Party that is liable for BSUoS charges/payments and the Party liable for RCRC charges/payments will often be the same, and they will usually pick up the same proportion of each. An exception will occur though if the relevant BM Unit is the subject of a Metered Volume Reallocation Notification (MVRN). If an MVRN is in place, then it will be the Subsidiary Party that will be charged/paid RCRC against the relevant Credited Energy Volumes. However, it will be the Lead Party that continues to be charged/paid BSUoS against those Credited Energy Volumes.

What is the issue?

[CUSC Modification Proposal \(CMP\) 202](#) is seeking to remove BSUoS charges from Interconnector BM Units. This proposal was raised as BSUoS charges could be perceived as a barrier to cross-border trades across Interconnectors. Under the EU Third Package, Interconnectors are treated as a part of the Transmission System. However, under the GB arrangements, Interconnector Users are treated as either generation or demand, and as such are treated in the same way as a generator or Supplier would be. This could be considered inconsistent with the objective of a single European electricity market, and would also act as a barrier to cross-border trades to and from GB.

In addition, regulations arising from the Third Package require that no additional charges are levied on cross-border trades. The BSUoS charge could be considered as such a charge and therefore contrary to the requirements of the EU Third Package, and so should be removed to ensure compliance.

¹ In each Settlement Period, one of SBP and SSP will be the 'main' price, which is calculated based on the Bids and Offers accepted by National Grid. The other price is the 'reverse' price, and is calculated using data on short-term trades obtained from the power exchanges. If the system is short, SBP is the main price and SSP is the reverse price. The reverse is true if the system is long.

If CMP202 is approved, then a potentially anomalous situation could occur where Parties are liable for RCRC charges/payments but are not liable for BSUoS charges/payments. This could give rise to the potential for windfall gains or losses by those Parties who would no longer be liable for BSUoS. In addition, as RCRC can result in negative payments (i.e. Parties are charged rather than paid RCRC), this could also be perceived as a disincentive to cross-border trade.

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Proposed solution

P285 proposes to also exclude Interconnector BM Units from RCRC. To achieve this, the Credited Energy Volumes from Interconnector BM Units (whether relating to an Interconnector User or an Interconnector Error Administrator) would be excluded from the calculation of each Party's RCRP. This will mean that Interconnector volumes would not be included in a Party's RCRP, and the share of the RCRC that would have been allocated to these Interconnector volumes will instead be reallocated across BSC Parties in proportion with their non-Interconnector Credited Energy Volumes.

Applicable BSC Objectives

The Proposer believes that P285 will better facilitate the achievement of:

- **Applicable BSC Objective (a)**, as this proposal would allow National Grid to take into account developments in its transmission business that arise from European legislation and ensure that appropriate financial balancing and settlement (BSC) arrangements are in place;
- **Applicable BSC Objective (c)**, as aligning the RCRC beneficiaries with those that pay to resolve imbalance through BSUoS permits trades across Interconnectors to be based on market price differentials, undistorted by any costs or payments arising from RCRC. This would also prevent Interconnector Users from receiving windfall gains or losses that would arise from being subject to RCRC but not being subject to BSUoS; and
- **Applicable BSC Objective (e)**, as although RCRC is essentially a redistribution of monies arising from the imbalance arrangements, it can also be negative and thus result in a perceived charge on Parties trading across Interconnectors. It may therefore in those circumstances be viewed as contrary to EU Third Package arrangements.



What is the solution?

P285 proposes to exclude Interconnector BM Units from RCRC charges/ payments.



What are the Applicable BSC Objectives?

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

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

(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

(d) Promoting efficiency in the implementation of the balancing and settlement arrangements

(e) Compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency

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3 Things to Consider

In this section we highlight areas which we believe the Panel should consider when making its decision on how to progress this Modification Proposal. We recommend that the areas below form the basis of a Workgroup's Terms of Reference.

What changes are required to support the proposed solution?

P285 is likely to impact the BSC and central Settlement Administration Agent (SAA) systems. It will also impact Interconnector Users and Interconnector Error Administrators and indirectly impact all other BSC Trading Parties. The specific changes required will need to be identified through an impact assessment, along with any associated implementation costs and lead times.

Should the BSC still allocate RCRC to Interconnector BM Units?

RCRC is currently distributed among all BSC Parties proportionally, based on their Credited Energy Volumes. However, the RCRC charge/payment and the BSUoS charge/payment can be considered to be related and opposite cashflows, with the BSUoS charge also distributed across all Parties based on their Credited Energy Volumes.

If CMP202 is approved, Interconnector BM Units will no longer be liable for BSUoS charges/payments. However, they would still be liable for RCRC charges/payments. The related nature of these two charges means that Interconnector Users and Interconnector Error Administrators could be subject to windfall gains or losses by receiving or paying RCRC but not also paying or receiving the equivalent proportion of the BSUoS charges.

In addition, the nature of RCRC can mean that Parties are charged rather than paid RCRC. This could be viewed as an additional charge on Interconnector flows, which could be considered contrary to European regulations arising from the EU Third Package.

The Workgroup should consider whether Interconnector BM Units should also be excluded from RCRC, in light of the changes that would be introduced should CMP202 be approved.

Although Ofgem has not yet made its decision on CMP202, the proposed CMP202 Implementation Date is 10 Working Days after Ofgem approval. It may also help Ofgem to have sight of any consequential BSC changes when making its CMP202 decision. In addition, any P285 changes are likely to require time to develop and implement (see below).

What is the appropriate implementation approach for P285?

The CMP202 Workgroup has proposed that CMP202 should be implemented 10 Working Days after an Authority decision. CMP202 is in the late stages of its progression and so, if it is approved, it could be implemented around late Summer or early Autumn 2012.

However, an Authority decision on P285 is unlikely to be made before January 2013. In addition, P285 will require system changes, which will increase the lead time required to implement the solution. Consequently, P285 is likely to be targeted for the June 2013 BSC Systems Release, many months after the likely Implementation Date of CMP202. During this time, Interconnector BM Units would not be liable for BSUoS charges/payments, but would still be liable for RCRC charges/payments.

The Workgroup should consider what the impact of this would be and what the best implementation approach is for P285.

What are the benefits to the Applicable BSC Objectives?

The Workgroup should consider whether P285 would better facilitate the achievement of the Applicable BSC Objectives.

The primary benefits cited by the Proposer are that P285 would better facilitate the achievement of Applicable BSC Objectives (a), (c) and (e) by allowing National Grid to take developments arising from European legislation into account, aligning RCRC and BSUoS beneficiaries and avoid the potential for windfall gains or losses.



What is the proposed progression?

P285 should be progressed to the Assessment Procedure.

Next steps

We believe that P285 should undergo an Assessment Procedure in order to consider the areas outlined in Section 3.

The Proposer is not requesting that P285 is progressed as a Self-Governance Modification Proposal due to the material change to the existing arrangements; we agree with this view.

The Proposer believes that P285 has no interaction with any on-going Significant Code Reviews (SCRs). They note that BSC changes are not within the scope of the TransmiT SCR. They also consider that, whilst RCRC is linked with imbalance and cash-out pricing, it is primarily a mechanism for redistributing funds resulting from the cash-out process, and thus likely to remain irrespective of the outcome of the proposed Cash-Out SCR.

Terms of Reference

We recommend that membership of the P285 Workgroup is drawn from members of the Settlement Standing Modification Group (SSMG), supplemented with any other relevant experts and interested parties including members of the CMP202 Workgroup.

We recommend that the Workgroup considers the following areas:

P285 Terms of Reference	
1	What changes are needed to BSC documents, systems and processes to support P285 (including any impacts on Parties' systems), and what are the related costs and lead times?
2	Should the BSC still allocate RCRC charges/payments to Interconnector BM Units?
3	What is the appropriate Implementation Date for P285, given the proposed Implementation Date for CMP202? What would the impact be if CMP202 is implemented before P285 is implemented?
4	What are the benefits to the Applicable BSC Objectives?

Timetable

We recommend that P285 undergoes a 4-month Assessment Procedure.

We believe that the Workgroup will need to undertake the activities shown in the table below. These include undertaking a 15 Working Day (WD) industry impact assessment followed by a 15WD industry consultation. A four-month Assessment Procedure will allow time for both of these, and for the Workgroup to fully consider the areas highlighted in Section 3.

The BSC allows the Panel to set an Assessment Procedure timetable which is longer than three months where the Panel believes this is justified by "the particular circumstances of the Modification Proposal (taking due account of its complexity, importance and urgency)"

Give the related subject matter, we recommend that P285 is progressed in parallel with Modification Proposal P286. See below for more information.

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Proposed progression timetable for P285	
Activity	Date
Present IWA to Panel	14 Jun 12
Workgroup Meeting 1	21 Jun 12
Issue for a 15WD Industry Impact Assessment	13 Jul 12 – 03 Aug 12
Workgroup Meeting 2	W/B 06 Aug 12
Issue for a 15WD Assessment Consultation	23 Aug 12 – 14 Sep 12
Workgroup Meeting 3	W/B 17 Sep 12
Present Assessment Report to Panel	11 Oct 12
Issue for a 15WD Report Phase Consultation	19 Oct 12 – 09 Nov 12
Present Modification Report to Panel	13 Dec 12

Interaction with P286

P285 has been raised in parallel with [P286 'Revised treatment of RCRC for generation BM Units'](#), as both of these Modifications seek to amend how RCRC is allocated among BSC Parties. P286 seeks to exclude generator BM Units from RCRC payments/charges, and has been raised in response to CUSC Modification Proposal (CMP) 201.

The changes to the distribution of BSUoS charges under the CUSC have been raised as two separate CUSC Modifications (CMP202 seeks to exclude BSUoS charges/payments from Interconnector BM Units and CMP201 seeks to exclude BSUoS charges/payments from generator BM Units).

P285 and P286 have been raised as separate Modifications in order to align the BSC Modifications with the corresponding CUSC Modifications, which will allow for greater flexibility in Ofgem's decision on the proposed changes. By keeping the equivalent BSC changes as separate Modifications, Ofgem has the flexibility to approve or reject the BSC changes in line with its decisions on the corresponding CUSC changes.

Estimated progression costs

The following tables contain our estimates of the costs involved in progressing P285 through the Modification Procedures.

Estimated progression costs based on a 4-month Assessment Procedure timetable	
Meeting costs (including Workgroup member expenses)	£750 (based on three meetings held jointly with P286)
Non-ELEXON legal and expert costs	£0
ELEXON resource	40 man days, equating to approx. £9.5k

Estimate of total industry assessment costs					
Workgroup support	Est #mtgs	Est #att	Est effort	Est rate	Sub-total
	3	8	1.5	£605	£21,780
Consultation response support	Est #cons	Est #resp	Est effort	Est rate	Sub-total
	3	8	2.5	£605	£36,300
Total costs					£58,080

This calculation considers that three Workgroup meetings will be needed and that three consultations (Industry Impact Assessment, Assessment Consultation and Report Phase Consultation) will be issued.



Industry Assessment Costs

Industry Workgroup support and consultation response costs represent an approximation of industry time and effort in attending Workgroup meetings and responding to consultations.

The calculation is based upon an estimate of how many attendees we expect to attend each meeting and how many responses we expect to receive to each consultation.

It assumes that each attendee will require 1.5 man days of effort per meeting and each response will take 2.5 man days of effort, multiplied by a standard rate of £605 per man day.

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5 Likely Impacts

Impact on BSC Systems and process

BSC System/Process	Potential impact
SAA	Changes will be required to the calculation of RCRP and RCRC.

Impact on BSC Parties and Party Agents

Interconnector Users and Interconnector Error Administrators will no longer be charged or paid RCRC on the Credited Energy Volumes from their Interconnector BM Units.
The RCRC payments/charges of all other BSC Trading Parties will increase in order to still allocate the total residual cashflow among all applicable Parties.

Impact on Transmission Company

None identified.

Impact on ELEXON

Area of ELEXON	Potential impact
Release Management	ELEXON will manage the implementation project.

Impact on Code

Code Section	Potential impact
Section T	Changes will be required to implement the solution.

Impact on Code Subsidiary Documents

CSD	Potential impact
SAA Service Description	Impacts to be confirmed during the Assessment Procedure.

Impact on other Configurable Items

Configurable Item	Potential impact
SAA System Documents	Impacts to be confirmed during the Assessment Procedure.

Other Impacts

Item impacted	Potential impact
ELEXON Guidance Documents	Updates will be required to the 'Calculation of RCRC' Guidance Document. Other guidance documents may also be impacted.

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6 Recommendations



On the basis of this IWA, ELEXON invites the Panel to:

- **DETERMINE** that Modification Proposal P285 progresses to the Assessment Procedure;
- **DETERMINE** that the P285 Workgroup should be formed from members of the Settlement Standing Modification Group (SSMG), supplemented with any other relevant experts and interested parties;
- **AGREE** the Workgroup's Terms of Reference;
- **AGREE** that P285 has no interaction with any ongoing SCRs;
- **AGREE** that P285 does not meet the Self-Governance Criteria; and
- **AGREE** the Assessment Procedure timetable such that an Assessment Report is submitted to the Panel at its meeting on 11 October 2012.

Assessment Procedure

ELEXON recommends a 4-month Assessment Procedure for P285.

7 Further Information

More information is available in:

Attachment **A**: P285 Modification Proposal

You can also find further information on the [P285](#) page of the ELEXON website.

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