Assessment Procedure Consultation Responses

P361 'Revised treatment of BSC Charges for Lead Parties of Interconnector BM Units'

This Assessment Procedure Consultation was issued on 26 April 2018, with responses invited by 15 May 2018.

Phase

- Initial Written Assessment
- Definition Procedure
- Assessment Procedure
- Report Phase
- Implementation

Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
National Grid Interconnectors	2/0	Interconnector Administrator, Interconnector Error Administrator
Drax Group PLC	2/0	Generator, Supplier
SmartestEnergy	1/0	Supplier
RWE Supply & Trading GmbH	3/2	Generator, Interconnector User, Non Physical Trader, ECVNA, MVRNA
BritNed Development Limited	2/0	Interconnector Administrator, Interconnector Error Administrator
ScottishPower	3/2	Generator, Supplier, Non Physical Trader, ECVNA, MVRNA
SSE plc	3/0	Generator, Supplier, Interconnector User

Question 1: Do you agree with the Workgroup's initial majority view that P361 does better facilitate the Applicable BSC Objectives than the current baseline?

Summary

Yes	No	Neutral/No Comment	Other
3	4	0	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors	Yes	We agree that this better facilitates compliance with the EU 3rd Energy Package and as a result enhances objective 'e' of the BSC. Furthermore this is consistent with previous modifications in relation to applicable charges for Interconnectors. We see no negative implications of P361 in relation to the BSC objectives.
Drax Group PLC	No	We do not agree that P361 better facilities the Applicable BSC Objectives than the current baseline. Applicable BSC Objective (c) – Negative We do not consider that BSC charges are a barrier to entry into the UK market and are not convinced that they materially distort cross-border trading, as such, removal of these charges would not promote effective competition. We would welcome analysis illustrating the distortion caused by these BSC charges and do not believe that P361 is justified without this evidence. In fact, we believe re-distributing BSC charges in this manner will have a negative impact on Applicable BSC Objective (c). Levying these costs only on Non-interconnector BM Units will distort allocation of BSC costs and would not ensure that there is a level playing field for all market participants. Applicable BSC Objective (e) – Neutral We have the opinion that BSC charges are a service charge and recover the cost to ELEXON in administering the BSC arrangements, as prescribed in ELEXON's Legal guidance, however we do not agree that the Relevant BSC Charges would likely be considered a charge for access to the network by the EU institutions. BSC charges are not network charges, the costs of maintaining the Transmission infrastructure and operating the electricity system

Respondent	Response	Rationale
		are recovered by the Transmission Owner and the System Operator through TNUoS and BSUoS respectively, both of which Interconnector BM Units are already exempt from paying. To assess whether P361 better ensures compliance with the EU Third Package, we have the view that is it necessary to consider how other TSOs across Europe are dealing with these associated costs. Only then can comparisons be made and possible distortions to cross-border trading be identified. We would support a full review of the market tariffs placed on interconnectors in other member states to determine if the baseline distorts markets. Additionally, the methodology used to recover BSC Charges is a cost recovery mechanism, we do not believe that it is sufficient to label certain charges as network charges on the premise that they are calculated using a parties' energy volume.
SmartestEnergy	No	No rationale given
RWE Supply & Trading GmbH	No	We do not agree that P361 better facilitates the Applicable BSC Objectives when compared with the current baseline. P361 introduces discriminatory treatment of interconnectors and therefore does not better meet Objective C in relation to promoting effective competition. We expect that the differential treatment of interconnectors, with regard to BSC charges, will have a detrimental impact on power prices. The defect identified is not related to the BSC, but in fact relates to the apportionment and allocation of GB trading costs, not the apportionment of transmission access charges to the relevant trading parties under the relevant interconnector rules.
BritNed Development Limited	Yes	We note that external independent legal advice has been sought on P361. It is therefore appropriate to conclude on the basis of this legal advice that BSC Objective (e) is better facilitated by P361 and we agree with the view of the Workgroup. It is important that the GB arrangements seek to align with applicable EU laws and regulations, irrespective of the approach within other EU member states.
ScottishPower	Yes	We agree that P361 better facilitates Applicable BSC Objective (e) by ensuring compliance with the EU Third Package. The Proposal is neutral against Objective (c) as the benefits from reduced charges to NEMOs (and by extension interconnector users)

Respondent	Response	Rationale
		are offset by the recovery of these costs from other market participants. The Proposal is neutral against the other Applicable Objectives.
SSE plc	No	Firstly, SSE question whether the workgroup view was unanimous, as this is certainly not what is indicated by the consultation document which states a majority view was reached. SSE does not agree that the modification proposal better facilitates the Applicable BSC Objectives. SSE does not believe that the mechanism to determine who pays their share of the administrative costs associated with running Elexon constitutes a Network Access Charge under the EU Third Package legislation. Rather the current methodology to charge out based on (predominantly) market share is a service charge and simply a way to determine a fair allocation of the costs proportionally to the worth of the system to a participant's commercial activities. Interconnector users enjoy the benefits of the central management of the BSC and delivery of central IT services, so it is appropriate in SSE's view that they should pay a fair share of the costs. SSE believe that this could be done on a fixed price basis to reduce the sensitivity of costs to variable volumes and ease the proposer's concerns. In this respect, SSE note that Ofgem, in fulfilment of their reporting obligations to the Commission, have repeatedly stated for many years that conditions of the CUSC associated with Network Charging discharge the relevant obligations under the Third Package. At no point during this reporting cycle has Ofgem indicated that BSC Charges fall within the scope of Network Access Charges. SSE are concerned that removal of these costs from interconnector users simply places the burden on all other GB participants. This further disadvantages GB generation relative to continental generation as it increases the differential in cost base, and wil result in a greater cost being passed through to GB consumers, whether directly by Suppliers or through GB wholesale price. SSE therefore view the proposal as detrimental to objective c) as it will decrease the competitive position of GB generation and increase costs to consumers.

Respondent	Response	Rationale
		SSE also believe that the proposal is detrimental to objective e) as we do not believe that the changes being proposed will be equivalent to those operated on the continent, (given the structure of Network Charging arrangements to predominantly charge out to demand), and therefore the solution cannot be argued to be supporting harmonisation of a Single Internal Energy Market.

Question 2: Do you agree with the Workgroup that the draft legal text in Attachment A delivers the intention of P361?

Summary

Yes	No	Neutral/No Comment	Other
6	0	1	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors	Yes	The text and the amended equations satisfies the removal of Interconnector BMUs from the cost calculations therefore the intention is delivered.
Drax Group PLC	Yes	The draft Legal text excludes interconnector BM Units Credited Energy Volumes from the Main Funding Share and SVA Funding Share. Although, we are not convinced that this ensures compliance with the EU Third Package and is a necessary change.
SmartestEnergy	No Comment	No rationale given
RWE Supply & Trading GmbH	Yes	No rationale given
BritNed Development Limited	Yes	The proposed drafting appears sufficient to deliver the intention of P361.
ScottishPower	Yes	The draft legal text appears to deliver the intention of P361.
SSE plc	Yes	No rationale given

Question 3: Do you agree with the Workgroup's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
4	2	1	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors	Yes	The implementation date is acceptable given the changes required to current Elexon administration of the BSC. We would urge this change is carried out as soon as practically possible with retrospective reconciliation administered as far back as possible.
Drax Group PLC	Yes	Implementation on 28 February 2019 seems reasonable.
SmartestEnergy	No	No rationale given
RWE Supply & Trading GmbH	No	We do not support implementation of P361. However, the implementation date is appropriate if the modification is approved by the Authority.
BritNed Development Limited	Yes	The recommended implementation date appears to be the earliest achievable date to implement P361 and is therefore acceptable. This implementation date and the associated recalculation of applicable charges for the 2018/19 financial year (commencing 01 April 2018) is a fair and pragmatic approach in relation to the discussion on retrospection. It broadly aligns with the 12 April 2018 notice to industry by Elexon highlighting the potential impact of this change and providing time for BSC parties to make any necessary financial provisions within 2018/19.
ScottishPower	Yes	Given the defect identified by the Proposer, the Proposal should be implemented at the earliest opportunity consistent with system development timescales and a BSC Systems Release.
SSE plc	Neutral	No rationale given

Question 4: Do you agree with the Workgroup that there are no other potential Alternative Modifications within the scope of P361 which would better facilitate the Applicable BSC Objectives?

Summary

Yes	No	Neutral/No Comment	Other
6	1	0	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors	Yes	We recognise that an alternative solution was suggested however we agree that this approach isn't acceptable due to the complexities of the ITC mechanism and the need for a timely solution. It is not feasible for these charges to be placed on the transmission system owner without a suitable recovery mechanism in place. We do not believe there is an alternative solution that would better facilitate the BSC objectives.
Drax Group PLC	Yes	We have not identified any potential Alternative Modifications and are not certain that there is a need for change, we would appreciate analysis of the market distortions currently present and consideration of how these market tariffs are charged in other member states.
SmartestEnergy	No	There should be an alternative with a future implementation date.
RWE Supply & Trading GmbH	Yes	No rationale given
BritNed Development Limited	Yes	We are not aware of any other potential Alternative Modification within the scope of P361 which would better facilitate the Applicable BSC Objectives.
ScottishPower	Yes	Based upon the external legal advice obtained there would not appear to and potential Alternative Modifications.
SSE plc	Yes	No rationale given

Question 5: Do you agree that P361 does not meet the Self-Governance Criteria and so should not be progressed as a Self-Governance Modification

Summary

Yes	No	Neutral/No Comment	Other
7	0	0	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors	Yes	The scope of the change and the potential impact to other BSC parties does not satisfy the self-governance criteria.
Drax Group PLC	Yes	This modification does not meet Self-Governance Criteria (a)i, (a)ii, (a)v and (b). It has a material effect on consumers, competition, governance of the BSC and discriminates against different classes of BSC Parties.
SmartestEnergy	Yes	No rationale given
RWE Supply & Trading GmbH	Yes	No rationale given
BritNed Development Limited	Yes	We agree with the Workgroup's assessment that the proposal does not meet the defined self-governance criteria.
ScottishPower	Yes	Given the material impact on Users' BSCCo Charges P361 does meet the self-Governance Criteria.
SSE plc	Yes	SSE agree with the reasons outlined within the Assessment Consultation.

Question 6: Will P361 Impact your organisation?

Summary

Yes	No	Neutral/No Comment	Other
5	2	0	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors	No	There are no negative impacts to our organisation or material changes to business operations that would be required as a result of the P361 modification.
Drax Group PLC	Yes	If implemented, our organisation will be impacted by an increase in BSC Charges which we are required to pay in order to participate in BSC arrangements. We foresee that the cost to Elexon in administering the BSC will increase as more interconnectors are commissioned. With the relevant Interconnector BM Units being exempt from certain BSC Charges, Non-Interconnector BM Units will be disadvantaged by having to pick up this cost.
SmartestEnergy	Yes	Our share of the costs will increase
RWE Supply & Trading GmbH	Yes	As noted above P361 introduces discriminatory treatment of interconnectors in the wholesale electricity market. Consequently we expect that this differential treatment will have a detrimental impact on power prices.
BritNed Development Limited	No	We do not expect P361 to have any implications for our systems, documents and processes.
ScottishPower	Yes	Our organisation will face increased costs through picking up some of the Interconnector Users' current share of BSCCo Charges and will need to modify its system for validation of BSCCo Charge invoices. However, we believe that changes to validation systems can be delivered before the proposed implementation date and the cost of changes is not expected to be material.
SSE plc	Yes	Administrative impact is minimal. Commercially, SSE's costs of funding Elexon will increase as a result of this change, and will need to be passed through in prices.

Question 7: Will your organisation incur any costs in implementing P361?

Summary

Yes	No	Neutral/No Comment	Other
1	6	0	0

Responses

Respondent	Response	Rationale
National Grid Interconnectors	No	No rationale given
Drax Group PLC	No	We will not incur any upfront implementation costs but expect our BSC Charges to continue to rise as stated in our response to Question 6. Analysis on the materiality of this change to establish the increasing proportion of costs that will placed on non-Interconnector BM Units in the future should be considered, especially given the proposed increases to interconnection capacity.
SmartestEnergy	No	No rationale given
RWE Supply & Trading GmbH	Yes	There will be a marginal increase in costs as a consequence of the adjustment of BSC charges as a result of this modification. In effect trading parties will be cross subsiding the activities of interconnectors.
BritNed Development Limited	No	We do not expect to incur any costs in implementing this P361.
ScottishPower	No	Please see our response to Question 6 above.
SSE plc	No	Systems and administrative costs associated with the change would be minimal.

Question 8: Do you have any further comments on P361?

Summary

Yes	No
5	2

Responses

Respondent	Response	Comments
National Grid Interconnectors	No	No rational given
Drax Group PLC	Yes	We would welcome analysis on how the associated charges are levied across TSOs in the EU and analysis of the current GB practice, this would determine if such BSC Charges are actually distorting the market for cross-border trading. Without this information we do not believe that such changes proposed by P361 are justified and better facilitate the Applicable BSC Objectives.
SmartestEnergy	Yes	At the very least we do not agree with the retrospective nature of this modification. This is unprecedented.
RWE Supply & Trading GmbH	Yes	The defect identified in this modification relates to the current interconnector arrangements and not to the BSC trading charges. In particular NEMOs cannot access information on the trading volumes attributed to parties using the interconnector and therefore cannot properly allocate costs. The interconnector owners could rectify this problem by defining arrangements that enable the apportionment of the relevant BSC trading charges to the correct parties.
BritNed Development Limited	Yes	The rationale for P361 is consistent with that presented for the previously approved for CUSC Modification – CMP202 Revised treatment of BSUoS charges for lead parties of Interconnector BM Units, specifically alignment with the provisions of the EU Third Package. Our view is that BSC Charges and BSUoS charges both seek to recover network costs within the broad category of the operation and balancing of the GB system. Implementation of P361 will ensure consistency in that interconnector parties will be excluded from the scope of these broadly related charging methodologies.
ScottishPower	No	No rational given

Respondent	Response	Comments
SSE plc	Yes	SSE believe that further work should be conducted to understand in detail how equivalent costs are charged out and recovered across all Members States. This is likely to demonstrate that charges are recovered predominantly (if not exclusively) from the demand base across Europe, and therefore an alternative could emerge that removes the Net Main costs from both interconnectors and GB generators, to ensure equal treatment of charges between GB and the continent.