

**Stage 04:** Draft Modification Report

What stage is this document in the process?

- 01 Initial Written Assessment
- 02 Definition Procedure
- 03 Assessment Procedure
- ▶ 04 Report Phase

P269 'Prevention of Base Trading Unit BMUs' Account Status Flipping from Consumption to Production'

P269 will prevent the P/C Status of BM Units in Base Trading Units 'flipping' from Consumption to Production if the level of embedded generation increases.

'Flipping' could result in Imbalance Charges for all Suppliers and some Exemptable (licence-exempt) generators.

To avoid this risk, P269 will give all BM Units in Base Trading Units a fixed P/C Status of Consumption (with the exception of any Exempt Export BM Units which have already chosen, or which later choose, to be Production).

The Panel is provisionally minded to:



- Progress P269 as a Self-Governance Modification Proposal; and
- **Approve** P269.

High Impact:



- All Suppliers; and
- Lead Parties for any Exempt Export BM Units in Base Trading Units which have not chosen a specific fixed P/C Status.

Medium Impact:



- The Central Registration Agent and ELEXON.

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Any questions?

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About This Document:

This is the P269 Draft Modification Report, which ELEXON is presenting to the Panel at its meeting on 11 August 2011. It includes the responses received to the Report Phase Consultation on the **Panel's provisional** views.

The Panel is minded to progress P269 as a Self-Governance Modification Proposal. The Panel will consider all consultation responses, and will either make a decision to approve or reject the change (if P269 is still a Self-Governance Modification Proposal) or make its final recommendation to Ofgem (if P269 is no longer a Self-Governance Modification Proposal).

This document has 7 attachments as follows:

- **Attachment A** contains more information on the P269 Workgroup's analysis and assessment. It includes further details of the current rules, worked examples of how 'flipping' could occur, the results of the Group's analysis of how close the issue is to occurring, and the interaction between P269 and the existing Credit Cover calculation. It also contains the **Workgroup's membership and** Terms of Reference.
- **Attachment B** contains the Assessment Consultation responses.
- **Attachments C-F** contain the draft BSC and Code Subsidiary Document changes.
- **Attachment G** contains the Report Phase Consultation responses.

The Panel has progressed P269 in parallel with related Modification Proposal [P268 'Clarify the P/C status process for Exempt Export BM Units'](#). Both P268 and P269 impact the P/C Status rules and Exempt Export BM Units (P269 also impacts Suppliers). Section 3 provides a summary of the interaction between P268 and P269. For more information about P268, please refer to the separate P268 Draft Modification Report. P268 is not being progressed as Self-Governance, and will go to Ofgem for decision.

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Why Change?

Increased embedded generation could cause the P/C Status of all Supplier BM Units, and **some Exempt Export BM Units, in a Base Trading Unit to 'flip' from Consumption to Production**. This could expose the Lead Parties for these BM Units to Imbalance Charges.

Solution

P269 fixes the P/C Status of all BM Units in a Base Trading Unit as Consumption, with the exception of any Exempt Export BM Units in the Base Trading Unit which have already chosen (or which subsequently choose) to be Production. This Consumption status will not change regardless of the level of embedded generation in the Base Trading Unit.

Impacts & costs

P269 impacts all Base and Additional Supplier BM Units, some embedded Exempt Export BM Units, ELEXON and the Central Registration Agent (CRA). It requires changes to the P/C Status calculation in BSC Systems, the BSC, BSC Procedures (BSCPs) 15 & 31, the CRA Service Description and other CRA documents. It has no retrospective element.

Its central implementation costs are £43k (£17k in CRA costs and £26k in ELEXON effort).

Implementation

The proposed Implementation Date is either 23 February 2012 or 5 April 2012, depending on when P269 is approved. The Workgroup and the Panel recommend implementing P268 in parallel with P269.

The case for change

The Workgroup and the Panel unanimously believe that P269 is a pragmatic solution to the **immediate imbalance risk of 'flipping', facilitates competition and Applicable BSC Objective (c)**, and should be implemented.

The Proposer believes that P269 also better facilitates efficiency and Applicable BSC Objective (d). Some Workgroup members are unsure, as they believe it may not be appropriate to continue fixing all Base Trading Units as Consumption once (or if) one or more Base Trading Units becomes a regular net exporter of electricity. These members recommend that the Panel establishes a separate Issue Group to consider the longer-term implications that increased embedded generation could have for the original principles of NETA.¹ However, most Workgroup members and all Panel Members agree that **P269 facilitates Objective (d) by removing the administrative disruption of a 'flipping' event**. You can find further details in Sections 3, 6 and 8.

Self-Governance

The Panel is minded to progress P269 as a Self-Governance Modification Proposal (meaning that the Panel, not Ofgem, will decide whether to approve or reject it). The Panel notes that a majority of Workgroup members and Assessment Consultation respondents believe that P269 does not meet the Self-Governance Criteria. The Panel has requested that Parties provide more detailed reasons for their views as part of the Report Phase Consultation. See Sections 7-9 for more information.

Recommendation

The Panel, Workgroup, and consultation respondents all support approving P269.

However, there are differing views on whether the Panel or Ofgem should make the approval decision.

A majority of Workgroup members and Assessment Consultation respondents believe that P269 should go to Ofgem for decision. The Panel unanimously disagrees, and is minded to progress P269 as a Self-Governance Modification Proposal. A majority of Report Phase Consultation respondents (who represent a slightly different set of Parties to Assessment respondents) agree with the Panel.

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¹ The New Electricity Trading Arrangements, introduced in 2001.



What is...?

A BM Unit?

A unit of trade in the Balancing Mechanism, such as a generating unit or a collection of consumption meters.

A Trading Unit?

A combination of BM Units, which may have the same or different Lead Parties.

A Lead Party?

The Party who registers a BM Unit and is responsible for its generation or demand.

A GC or DC value?

An estimate of a BM Unit's maximum generation or demand.

A Lead Party must submit GC and DC values for each of its BM Units in each BSC Season. It must also submit revised values during a Season if the expected maximum generation/demand is likely to exceed its original estimates by more than the amount specified in BSC Section K3.

An Exempt Export BM Unit?

A BM Unit which comprises Exemptable Generating Plant (a Generating Plant which does not by itself require a generation licence – e.g. a small wind farm). See Attachment A of the separate P268 Draft Modification Report for more details.

These terms are all defined in BSC Annex X-1.

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This section summarises the background to P269, the defect which the Proposer identifies in the current P/C Status rules, and the Workgroup's views on this defect. You can find more information on the existing rules in Attachment A.

What's a P/C Status and why does it matter?

Every BM Unit has a P/C Status which, on any given Settlement Day, is either Production or Consumption.

A BM Unit's P/C Status is important, as it determines which of a Party's Energy Accounts the BM Unit's net Metered Volume is allocated to for that Settlement Day. If the BM Unit's P/C Status is Production, its Metered Volume will be allocated to the Production Energy Account. If its P/C Status is Consumption, its Metered Volume will be allocated to the Consumption Energy Account.

If a Party notifies its contracts to the wrong account (e.g. if its P/C Status is Production but it notifies its contracts to its Consumption Account), it will be in imbalance on both accounts and will incur associated Imbalance Charges.

BSC Section K3 contains the existing rules for determining P/C Status.

How is P/C Status currently determined?

With the exception of Exempt Export BM Units and Interconnector BM Units, a BM Unit's P/C Status is determined dynamically by summing the Relevant Capacities of all BM Units in its Trading Unit.²

The Relevant Capacity of a BM Unit is based on its Generation Capacity (GC – a positive value) and Demand Capacity (DC – a negative value). If the sum of a BM Unit's GC and DC values is positive and greater than zero, then its Relevant Capacity is its GC value. Otherwise its Relevant Capacity is its DC value.

If the sum of the Relevant Capacities for all BM Units in the Trading Unit is positive and greater than zero, then the P/C Status for that Trading Unit and all of its BM Units is Production. Otherwise the P/C Status for the Trading Unit and all its BM Units is Consumption.

If a BM Unit is in a Sole Trading Unit on its own, then its P/C Status is only affected by its own GC and DC values. However, if it is part of a Trading Unit with other BM Units then its P/C Status is affected by the GC/DC values of all other BM Units in the Trading Unit.

The BM Unit's P/C Status is redetermined, and can change, each time:

- The BM Unit joins or leaves a Trading Unit;
- Another BM Unit joins or leaves the Trading Unit to which the BM Unit belongs; or
- There is any change in the GC or DC values of any of the BM Units which belong to that Trading Unit.

² Interconnector BM Units are allocated in fixed Production/Consumption pairs, whose P/C Status does not change. See the following page for an explanation of the P/C Status rules for Exempt Export BM Units.



What is...?

A Base Trading Unit?

The BSC divides Great Britain into 14 geographic areas of electricity demand, called Grid Supply Point Groups.

Each has a Base Trading Unit containing all Supplier BM Units within the GSP Group (one Base BM Unit for each Supplier plus any Additional BM Units which Suppliers register). The Metered Volumes of these Supplier BM Units collectively comprise **all Suppliers'** demand volumes for that geographic area, plus any embedded (distribution-connected) generation which is not part of an Exempt Export BM Unit.

By default, the Base Trading Unit also contains all embedded Exempt Export BM Units within the GSP Group. However, the Lead Party of an embedded Exempt Export BM Unit can choose to register it in a different Trading Unit if it wishes.

Directly-connected (i.e. transmission-connected) Exempt Export BM Units are not part of a GSP Group, and so cannot be in a Base Trading Unit.

You can find the rules for Base Trading Units in BSC Section K4.7.

Exempt Export BM Units can independently elect their P/C Status regardless of their own Relevant Capacity and the Relevant Capacities of any other BM Units in their Trading Unit. Exempt Export BM Units can currently elect to have a P/C Status which is fixed as either Production or Consumption (and which does not change unless the Lead Party makes a new election or the BM Unit ceases to be Exempt Export). They can also elect that their P/C Status is determined dynamically at the Trading Unit level as described above. If they do not make an election, their P/C Status is determined dynamically at the Trading Unit level by default.³

What was Issue 38?

In late 2009, the Issue 38 Group⁴ considered a number of potential issues relating to the growth of embedded (distribution-connected) generation and how these might affect the BSC arrangements.

One of the issues which the Group considered concerns the impact of increased levels of licence-exempt embedded generation on the P/C Status of BM Units in Base Trading Units.

P100 introduced the concept of Base Trading Units in 2003.⁵ To date, Base Trading Units have always consistently had Consumption status as they have comprised more demand than generation. However the Issue 38 Group considered that, with the growth in levels of embedded generation in particular geographic areas (such as the North of Scotland), it is increasingly possible that the sum of the Relevant Capacities for BM Units in a Base Trading Unit could become positive and greater than zero.

This would result in the P/C Status of the Base Trading Unit (and all BM Units whose P/C Status is linked to that of the Trading Unit) 'flipping' from Consumption to Production.

The Imbalance Settlement Group (ISG) also noted this potential issue in 2004/2005.⁶

How could 'flipping' occur?

There are two ways in which an increase in embedded generation could cause the sum of the Relevant Capacities for all BM Units in a Base Trading Unit to become positive and **greater than zero, such that the Trading Unit 'flips' from Consumption to Production:**

- If one or more Supplier BM Units increases its GC to reflect an increase in the expected SVA embedded generation within its Metered Volumes, such that this GC value becomes large enough to exceed its DC and thereby makes the BM Unit's Relevant Capacity its GC value; and/or
- If the number of CVA embedded Exempt Export BM Units in the Base Trading Unit, and/or the GC values (and therefore the Relevant Capacity values) of these BM Units, increases.⁷

You can find worked examples of each of these scenarios in Attachment A.

³ See the separate P268 Draft Modification Report for more information on the rules for Exempt Export BM Units.

⁴ [Standing Issue 38](#) 'Potential Improvements to Credit Checking Rules to Support High Levels of Embedded Generation in North Scotland'.

⁵ Approved Modification [P100](#) 'Extension of Demand-side Trading Units in order to increase the competitiveness of the market for embedded benefits'. See the separate P268 Draft Modification Report for more information on P100.

⁶ See ISG paper 48/013 'Possible CVA issues arising from increased volumes of embedded generation'. This paper has been archived from ELEXON's website, but is available on request.

⁷ An Exempt Export BM Unit's Relevant Capacity is likely to be Production (i.e. its GC is likely to be bigger than its DC) regardless of what P/C Status it has elected.

Because GC and DC values are estimated (not actual) values, and relate to a BM Unit's maximum generation and demand for a BSC Season (not its net or average position), it is possible for a Base Trading Unit's P/C Status to be Production even if it is not an actual net exporter of electricity.

What problems would 'flipping' cause?

Risk of imbalance

If increased embedded generation results in the P/C Status of a Base Trading Unit 'flipping' from Consumption to Production, then the P/C Status for all the Supplier BM Units in the Base Trading Unit (and any Exempt Export BM Units in the Base Trading Unit whose P/C Status is dynamically determined at the Trading Unit level) will become Production. These BM Units' net Metered Volumes will therefore be allocated to the relevant Parties' Production Accounts.

This could expose the Lead Parties to imbalance charges, if the Parties originally notified their contracted volumes against their Consumption Accounts.

This would affect any Metered Volume Reallocation Notifications (MVRNs) the Lead Party has in place, as well as its Energy Contract Volume Notifications (ECVNs).⁸

Impact on Credit Cover

If a Base Trading Unit 'flips' to Production, this would also change the way that Credit Cover is calculated for some Supplier BM Units in the Base Trading Unit.

This is because it is a Supplier BM Unit's P/C Status which determines how a small part of its credit assessment is undertaken. If a Supplier BM Unit becomes Production then:

- If it already submits Final Physical Notifications (FPNs), part of its credit assessment will become based on its FPN rather than its GC or DC as currently;
- If it does not submit FPNs, and the sum of its GC and DC values is negative or zero, then part of its credit assessment will continue to be based on its DC as currently (unless the Supplier BM Unit contains SVA embedded generation and it has applied for a special negative Credit Assessment Load Factor (CALF) value); or
- If it does not submit FPNs, and the sum of its GC and DC values is positive and greater than zero, then part of its credit assessment will become based on its GC rather than its DC as currently (which may have unintended effects if the Supplier has previously applied for a negative CALF value).

You can find a detailed explanation in Attachment A.

Can Parties avoid this imbalance risk?

Exempt Export BM Units can avoid the risk of imbalance under the current arrangements by electing a P/C Status which is fixed as either Production or Consumption, and which does not change with the overall status of the Trading Unit.

⁸ This is because BSC Section P3 only allows a Lead Party to reallocate a BM Unit's Metered Volume to another Party through an MVRN if the Energy Account of the other Party matches the P/C Status of the BM Unit (i.e. if the BM Unit has a P/C Status of Production, the MVRN must be to the other Party's Production Account). A change in the BM Unit's P/C Status automatically terminates the MVRN.

If Suppliers are aware in advance of the change in a Base Trading Unit's P/C Status to Production, they could also take action to prevent imbalance exposure by amending their systems/processes to notify their contacted volumes against their Production Accounts instead.

However, the Group notes that this could be seen as undermining the original intention of NETA that Parties who have separate licensable generation and supply businesses (i.e. vertically-integrated companies) should treat these separately through their Production and Consumption Energy Accounts respectively.

It would also mean that Suppliers would be handling imbalance for that GSP Group differently to other GSP Groups whose Base Trading Units still have a Consumption P/C Status (i.e. they would have metered demand volumes for that GSP Group in their Production Energy Account, but the demand volumes for the other GSP Groups in their Consumption Energy Account). The Workgroup notes that this could cause practical issues for Suppliers, and could affect their consolidation benefits.

In addition, Parties in Base Trading Units would not necessarily be aware if the P/C Status of the Base Trading Unit changes from Consumption to Production until after the event. Currently, each Lead Party for a BM Unit receives notification through the CRA-I014 data **flow of any change in its own BM Unit's registration data (including its P/C Status).** ELEXON also publishes registration data for every BM Unit through the ELEXON Portal. **The Portal data is updated daily, and it includes each BM Unit's current GC/DC values,** Trading Unit and P/C Status. However, if one BM Unit in a Base Trading Unit submits **GC/DC values which flip the Trading Unit's P/C Status, the** Lead Parties for the other affected BM Units in the Trading Unit are unlikely to know this until after the change in P/C Status has occurred.

The Proposer suggests that Suppliers could prevent their GCs from exceeding their DCs, and thereby prevent their Base Trading Unit from becoming Production, by artificially-inflating their DC values to make them higher/more negative. The Group notes that Parties are only required to resubmit their DC values if their expected demand is higher (more negative) than their **DC, not lower. However, because Suppliers' DC values would** be used in their Credit Cover calculation, inflating them could increase the amount of credit Suppliers have to lodge. The Group notes that it might also put Suppliers in breach of the requirement in BSC Section K3.4.1 that a Lead Party shall estimate its GC and DC 'in good faith and as accurately as it reasonably can'.

Why is the imbalance issue limited to Base Trading Units?

The P/C Status of BM Units in all other types of Trading Unit is also determined dynamically at the Trading Unit level, and can therefore change at any time according to the total Relevant Capacity of the Trading Unit. However, the Group considers that a change in P/C Status is a managed risk for other Trading Units. This is because other types of Trading Unit can only be formed with the agreement of all the Lead Parties involved, and it is therefore possible for these Parties to put in place bilateral agreements to notify each other of their GC/DC changes.

In contrast, **the Group believes that 'flipping' is an unmanaged risk for Base Trading Units,** because these consist of BM Units which are part of the Trading Unit by default. BM Units in Base Trading Units are therefore unlikely to be aware if another BM Unit joins or leaves **the Trading Unit and/or changes its GC/DC values. If this changes the Base Trading Unit's** overall P/C Status, then the BM Units in the Trading Unit are unlikely to know this until after the event when they are notified through the CRA-I014 data flow.

How likely is 'flipping' to happen?

At the time of producing this Draft Modification Report, 'flipping' has not occurred in practice for any Base Trading Unit.

The Group has undertaken analysis which shows the trend in total Relevant Capacity values for each Base Trading Unit from BETTA Go-Live in April 2005⁹ to 1 June 2011 (i.e. up to and including the pre-season GC/DC declarations for the current BSC Summer Season). You can find the full analysis in Attachment A.

The analysis confirms the Issue 38 Group's earlier findings in 2009 that the Base Trading Unit for the North Scotland GSP Group is likely to be the first to experience P/C Status 'flipping'. Summer has historically been the period in which the North Scotland Base Trading Unit's total Relevant Capacity has been closest to zero, because of the reduction in demand during the summer. However, the Summer 2010 Relevant Capacity values for this Base Trading Unit were less close to zero (and therefore less close to flipping its P/C Status to Production) than the Summer 2009 values noted by the Issue 38 Group, and the Spring 2011 values were less close than both the Spring 2009 and Spring 2010 values. The initial GC/DC declarations for Summer 2011 in the North Scotland Base Trading Unit are again less close than those at the start of the 2010 or 2009 Summer Seasons.

The Group is proceeding on the basis that a solution to the imbalance risk caused by 'flipping' should be implemented before the start of the Summer 2012 BSC Season, as requested by the Proposer in the Modification Proposal. However, there remains a risk that any within-season re-declarations of GC/DC values during Summer 2011 could cause the Base Trading Unit to flip to Production. As described further in Attachment A, marginal changes in GC/DC values can potentially have significant impacts on a Base Trading Unit's total Relevant Capacity. The Group therefore cautions against relying on its analysis as evidence that 'flipping' definitely will not happen this summer.

Is further analysis required?

Some Group members have initially suggested that further analysis is required in order to predict when 'flipping' might occur – for example, detailed analysis of Parties' current and previous GC/DC values in North Scotland. However, other members consider that such analysis would still be speculative and would not add to the Group's assessment of whether P269 better facilitates the Applicable BSC Objectives. Moreover, the time needed to conduct this analysis would delay the progression of P269, could reduce the feasibility of a Spring 2012 implementation, and would therefore risk a 'flipping' event occurring in the meantime. The Group notes that all BM Units' GC/DC values are publicly available on the ELEXON Portal, should Parties wish to undertake their own analysis of these outside of the Modification Process. The Group also notes that ELEXON will include a graph in its monthly Trading Operations Report to the Panel from July 2011, showing Base Trading Units' total Relevant Capacities over a rolling 24-month period. This will allow the Panel to monitor any month-on-month changes.

The Group has therefore agreed not to conduct any more analysis as part of P269. However, it has asked ELEXON to contact the Distribution company for North Scotland to request a high-level estimate of the additional licence-exempt embedded generation connecting to its Distribution System over the next 3 months. The Group considers that this will indicate how much margin exists for the remainder of the 2011 Summer Season.

⁹ The British Electricity Trading Arrangements, which extended the England & Wales NETA arrangements to the whole of Great Britain. This is the first point for which BSC data is available for Scotland.

The Distributor has confirmed that they will be connecting 26 jobs, giving a total of 120MW, between mid July and the end of October 2011.

Is there a case for urgency and/or retrospection?

Under the current progression timetable, the Panel will consider the P269 final Modification Report on 11 August 2011. The BSC Summer Season ends on 31 August. At its final meeting, the Group has therefore discussed whether P269 should be progressed as an Urgent Modification Proposal and/or should have retrospective application to address any **'flipping' event which might occur during the Summer 2011 Season. The Group notes that** the possibility of urgency and/or retrospection has not been flagged to Parties in either the Modification Proposal or its Assessment Consultation. The merits of urgency and/or retrospection would require further consideration and additional consultation, which could in itself delay the progression of P269. ELEXON also notes that the industry has known about the issue for several years, and that this might make urgency and/or retrospection harder to justify. Even if P269 is progressed urgently, the Summer 2011 Season has **already started and there is no guarantee that 'flipping' would still not occur in the interim.**

The P269 implementation lead time reflects the time needed to make the necessary changes to BSC Systems. One Group member has suggested that the Code could be changed immediately and the systems could catch up at a later point. ELEXON notes that this would make BSC Systems (and thereby BSC Agents) non-compliant with the Code for a period of time, and would still not prevent Suppliers being exposed to Imbalance **Charges if 'flipping' occurs before the systems are amended. The member suggests that** affected Suppliers could raise Trading Disputes on the grounds that the systems would not have followed the Code. The member believes that it would provide Parties with certainty of the Code rules and that any imbalance will be retrospectively rectified.

One member has asked for their view to be recorded that, if they could implement P269 quicker, they would. Another member considers that this is true for every Modification Proposal, and that it is normal to base Implementation Dates on a systems lead time. This member believes that **there is no evidence to suggest that 'flipping' is any more likely now than when the Issue 38 Group considered it in 2009. They consider that, if the Proposer's** intention was to implement P269 in time for Summer 2011, then the Modification Proposal should have been raised earlier or submitted with a request for urgency. However, they believe there is no evidence that urgency is required.

The Group has concluded that P269 should continue to progress as a normal (non-urgent) Modification Proposal, and that the necessary Code and system changes should be implemented concurrently during Spring 2012 in time for the 2012 BSC Summer Season. **If, in the meantime, a 'flipping' event happens or there is evidence that one is imminent, it** is open to a Party to raise another Modification Proposal with a request for retrospection and/or urgency.

This section summarises the P269 solution as put forward by the Proposer. You can find further details of the solution in Attachment A.

The Proposer's solution is unchanged from their original Modification Proposal. There are no areas of disagreement between the Proposer and the other Group members over the solution requirements.

What is the P269 solution?

The P269 solution delivers the Issue 38 Group's recommendation that all BM Units in a Base Trading Unit should be given a fixed P/C Status of Consumption, with the exception of any Exempt Export BM Units in the Base Trading Unit which have already elected (or which later elect) to be Production. This Consumption status will not change even if the **level of embedded generation in the Base Trading Unit means that the sum of its BM Units' Relevant Capacities becomes positive and greater than zero**. This means that all Supplier BM Units (i.e. all Base BM Units and Additional BM Units) will always have a fixed Consumption status.

This solution requires changes to the P/C Status calculation in CRA systems. You can find more information on the systems impact in Attachment A. Attachments C-F contain the draft redlined changes to the BSC and impacted Code Subsidiary Documents.

P269 will not prevent all BM Units in a Base Trading Unit being treated as delivering (exporting) rather than offtaking (importing) in a Settlement Period, for the purposes of **scaling the BM Units' Metered Volumes** for transmission losses under BSC Section T2. This situation has already happened in practice. Whether a Trading Unit is considered to be **'delivering' or 'offtaking' is determined according to the sum of its BM Units' actual Metered Volumes,¹⁰ and is therefore separate to a Trading Unit's P/C Status which is determined according to the sum of its BM Units' Relevant Capacities**.

How do P269 and P268 interact?

P269 does not change the rules by which Exempt Export BM Units elect their P/C Status. It only allocates a fixed Consumption P/C Status to embedded Exempt Export BM Units in Base Trading Units which have not already elected a fixed P/C Status of Production or Consumption, and whose P/C Status is therefore determined at the Trading Unit level. It does not prevent an Exempt Export BM Unit from changing its election. P269 does not affect Exempt Export BM Units which are directly-connected, or embedded Exempt Export BM Units in other types of Trading Unit.

Separate Modification Proposal P268¹¹ seeks to make it mandatory for each Exempt Export BM Unit to elect a fixed P/C Status which is either Production or Consumption. Under P268, Exempt Export BM Units will no longer be able to have a P/C Status which is determined at the Trading Unit level but can still change their election from Production to Consumption (or vice versa) at any time. P268 impacts all directly-connected and embedded Exempt Export BM Units in all types of Trading Unit. For a more detailed explanation of P268, please refer to the separate P268 Draft Modification Report.

¹⁰ See BSC Section T2.1. If the sum of the Metered Volumes for all BM Units in a Trading Unit is positive and greater than zero in a Settlement Period, then the Trading Unit is a 'delivering' Trading Unit in that Settlement Period; otherwise it is an 'offtaking' Trading Unit.

¹¹ P268 'Clarify the P/C status process for exempt BM Units'.

If both P268 and P269 are approved, then the P269 solution will not affect any Exempt Export BM Units. Despite this, P269 on its own does not address the defect identified by P268. The two changes relate to separate issues, and have separate solutions which work independently or together. However, the exact P/C Status rules for Exempt Export BM Units will differ depending on whether both, only one, or neither of the changes are approved. The table on the following page provides more information on this interaction.

The Group believes that, if P268 and P269 are both approved, implementing both changes in parallel will give additional certainty/clarity of the rules for Exempt Export BM Units. No respondents to the Assessment Consultation disagree with this view.

The Proposer of P268 is seeking retrospection – does this affect P269?

No. A retrospective implementation of P268 will involve the retrospective redetermination **of some Exempt Export BM Units' P/C Status**. This will not affect the P269 issue as it is the Relevant Capacity values of Exempt Export BM Units in a Base Trading Unit (and not their P/C Status) which contribute to whether a Base Trading Unit is Production or Consumption. P268 will not retrospectively **change any Exempt Export BM Units' GC/DC or Relevant Capacity values**.

P268 and P269 interaction

If both P268 & P269 are implemented	If P268 is rejected but P269 is implemented	If P268 is implemented but P269 is rejected	If both P268 & P269 are rejected
<ul style="list-style-type: none"> All Exempt Export BM Units will be required by P268 to elect a fixed P/C Status of either Production or Consumption, and will be unaffected by the P269 solution. 	<ul style="list-style-type: none"> All Exempt Export BM Units which have voluntarily elected under the current rules to have a fixed P/C Status of Production or Consumption will be unaffected by either the P268 issue or the P269 solution. Any Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are not part of a Base Trading Unit, will be affected by the P268 issue but not by the P269 solution.¹² Any embedded Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are part of a Base Trading Unit, will be affected by both the P269 solution (which will give them a fixed P/C Status of Consumption) and the P268 issue.¹² 	<ul style="list-style-type: none"> All Exempt Export BM Units will be required by P268 to elect a fixed P/C Status of either Production or Consumption, and will be unaffected by the P269 issue. 	<ul style="list-style-type: none"> All Exempt Export BM Units which have voluntarily elected under the current rules to have a fixed P/C Status of Production or Consumption will be unaffected by either the P268 or P269 issues. Any Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are not part of a Base Trading Unit, will be affected by the P268 issue but not by the P269 issue. Any embedded Exempt Export BM Units which have not made a specific P/C Status election under the current rules, and which are part of a Base Trading Unit, will be affected by both the P268 and P269 issues.

¹² P269 does not resolve the defect identified by P268, which is that an Exempt Export BM Unit should never be allocated a P/C Status which it has not explicitly elected.

Why does P269 fix all Base Trading Units as Consumption?

The Workgroup unanimously agrees that a solution is needed to the immediate imbalance risk which would be caused by a Base Trading Unit 'flipping' to Production.

The Group notes that this solution needs to be relatively quick and easy to implement, in order to remove the risk of 'flipping' as soon as possible. Because some members of the Group believe that, in the longer term, the increase in embedded generation may have bigger implications for some of the original NETA principles (see below), these members believe that the costs of any P269 solution to the immediate imbalance risk should also be kept low in case this solution is superseded in the future.

The Group unanimously believes that its chosen solution of fixing all Base Trading Units as Consumption is the most pragmatic and appropriate way to resolve the imbalance issue in the short term.

In reaching this conclusion, the Group has considered and ruled out the following alternative solutions which it identified as falling within the scope of P269:

- **Introducing a process to notify Lead Parties in advance of any changes in the GC/DC values of other BM Units in their Base Trading Unit.**

This would not stop the Base Trading Unit's P/C Status flipping, but could give Parties notice to change their contracts accordingly. However, mid-season GC/DC changes can currently become effective very quickly (usually on the next Working Day if received by 2pm), so the notice period would be limited in practice unless the GC/DC submission timescales were extended.

Because a marginal change in a Base Trading Unit's total Relevant Capacity could flip it to Production, it is possible that the Base Trading Unit could continue to flip back and forth between Production and Consumption for some period of time. Even if Parties had advance notice of this, then they would still need to continually adjust their ECVNs and MVRNs to avoid imbalance. This would cause associated costs and inefficiencies.

The costs and lead time for introducing new central data flows to notify Parties of forthcoming GC/DC changes are also unlikely to be less, and could be greater, than those for the Group's chosen solution.

Finally, giving advance notice of GC/DC changes would not avoid the other implications for Suppliers of their BM Units becoming Production (as outlined in Section 2 above – e.g. having some demand volumes in Production Energy Accounts, and the effect on their credit assessment).

- **Fixing the P/C Status of Base Trading Units for the duration of a BSC Season, based on the declared GC/DC values for that Season.**

This would stop the Base Trading Unit's P/C Status flipping during a Season due to mid-season GC/DC re-declarations, thereby limiting any change in P/C Status to once per Season. However, Suppliers would still need to amend their contracts accordingly, and this solution would not avoid the other implications outlined in Section 2 of a Supplier BM Unit becoming Production.

The Issue 38 Group also considered and discounted this solution.



Is fixing Base Trading Units as Consumption the best solution?

The Group unanimously agrees that this is the best solution to the immediate imbalance risk of 'flipping'.

However, some members believe that it may not continue to be most appropriate long-term solution once (or if) one or more Base Trading Units becomes a regular net exporter of electricity.

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- **Fixing all Base Trading Units as Production.**

This would resolve the imbalance issue. However, it would mean treating all Base Trading Units as generation, even though the majority would still have a total Relevant Capacity which is significantly below zero. It also would not avoid the other implications outlined in Section 2 of a Supplier BM Unit becoming Production.

The Group notes that, while there are potential future credit implications of always fixing all Supplier BM Units as Consumption (see below), these are still some way off from being a significant problem. Fixing all Base Trading Units as Consumption simply preserves the status quo for the majority of GSP Groups, while fixing them as Production would immediately impact all Supplier BM Units. The Group believes that, **because it is not possible to determine when 'flipping' will happen or how systematic** an issue this may become in the future, it is better to deliver a solution which simply preserves the current P/C Status for Base Trading Units.

- **Allowing the Panel to decide whether to fix each Base Trading Unit as Production or Consumption.**

This would allow the Panel to fix as Production any Base Trading Unit which may be at risk of flipping (e.g. North Scotland), while fixing the other Base Trading Units as Consumption. This would resolve the imbalance risk by fixing the P/C Status of each Base Trading Unit so that it is no longer dynamically determined. Some members believe that it could also be more in keeping with the original NETA principles for treating generation and demand consistently.

However, as with the other solutions discounted by the Group, it would not resolve the other implications of Supplier BM Units becoming Production.

The Group also notes ELEXON's advice that implementing rules within CRA systems to treat individual Base Trading Units differently (e.g. by introducing a new, Panel-set, flag) would be complex, and therefore likely to involve higher costs and a longer lead time than simply allocating them all the same P/C Status.

- **Raising the threshold for becoming Production.**

This is similar to the suggestion above, in that some Base Trading Units would become Production while others remain Consumption. However, it would change the **total Relevant Capacity threshold above which a Base Trading Unit 'flips' to** Production, so that rather than being 1MW as currently it would be another positive number which is greater than zero (e.g. 50MW or 100MW). This could reduce the possibility of a Base Trading Unit flipping back and forth between Consumption and Production status. However, it would still not resolve the other implications of Supplier BM Units becoming Production.

No Assessment Consultation respondents have suggested considering any of these alternative solutions further.

What are the long-term implications of fixing all Base Trading Units as Consumption?

A majority of Workgroup members believe that it may not be appropriate to continue fixing all Base Trading Units as Consumption once (or if) one or more Base Trading Units becomes a regular net exporter of electricity.

Implications for original NETA principles

These members note that to fix the P/C Status of a regularly-exporting GSP Group as **Consumption would effectively be treating it as 'negative demand' on the grounds that its export is caused by embedded generation.** They are conceptually uncomfortable with this classification – believing that it could go against the original NETA principle of treating generation and demand consistently.

These members also suggest that, as more and more exceptions are introduced to the original NETA P/C Status rules, the less meaningful P/C Status itself becomes. This may also call into question the original principles behind allowing BM Units to form Trading Units, requiring Parties to have separate Production and Consumption Energy Accounts, and/or allowing distribution-connected generators to have embedded benefits. One member questions whether it would be appropriate for an embedded Exempt Export BM Unit to hold a Consumption P/C Status if its Base Trading Unit is regularly exporting. Another member considers that, with the growth of embedded generation, it becomes increasingly less easy to distinguish **between traditional 'generation' and 'demand'.** They believe that to resolve this entirely would require either removing P/C Status altogether or, at the other extreme, to separately meter all generation and demand at the Supplier BM Unit level.

One member believes that a situation in which a GSP Group is regularly exporting is a long way off and that, by the time it occurs, the industry arrangements could already look very different. Other members recommend that the Panel establishes a separate Issue Group to consider the longer-term implications that increased embedded generation could have for the original NETA principles.

The Proposer does not believe the P269 solution presents any long-term problems. The Proposer believes that embedded generation **has always been treated as 'negative demand', and it is therefore appropriate that it should be grouped with other consumption.** The Proposer also believes that, because of the way the P/C Status is determined at an aggregated GSP Group level, it is not practical to separate out the positions of Parties who may, on their own, still be net consumers in an overall exporting GSP Group.

Implications for Credit Cover calculation

The Group notes that there is a known, existing, issue where a Supplier BM Unit has:

- A GC value which is bigger than its DC value (and therefore a Relevant Capacity of GC), due to the level of embedded generation within its Metered Volumes; but
- A credit assessment based on its DC value, because it is in a Consumption Base Trading Unit (and therefore has a P/C Status of Consumption).

There are not currently many Supplier BM Units in this situation and, where they are, they can apply for special negative CALF values to address this.

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The Group considers that this issue is largely independent of P269, and that in the short-term P269 does not make it any better or worse. There would only be an interaction if, over time:

- Increased embedded generation means that many more Supplier BM Units have GCs which exceed their DCs; and
- One or more Base Trading Units regularly has a total Relevant Capacity which is positive and greater than zero; and
- P269 fixes these Base Trading Units as Consumption where they would otherwise be Production.

This would mean that the credit assessment for these Supplier BM Units would either still be based on their DC values or that (where they have applied for negative CALF values) the current CALF arrangements may no longer be robust.

You can find more details in Attachment A.

The Group notes that, if P269 is implemented, this issue is therefore unlikely to present a significant problem in the short-term. On the other hand, if P269 is not implemented and **'flipping' occurs, this will cause immediate and significant imbalance and credit implications** for all Suppliers. Members consider that the impact of imbalance for Suppliers would be much greater than any inaccuracy in a small part of the credit calculation.

The Group agrees that, because 'flipping' could occur at any time, there is a trade-off to be made between finding the best long-term solution (which requires significant further discussion about how the original NETA principles interact with possible future scenarios) and delivering a pragmatic short-term solution to the immediate imbalance risk. The Group unanimously believes that P269 delivers this pragmatic short-term solution.

The Group notes that the solution to the above credit issue, and whether any solution should be delivered through the actual credit calculation or a change to the CALF methodology, is not obvious for the reasons explained in Attachment A. It therefore **agrees with ELEXON's suggestion that it should be progressed separately through the ISG** (which has responsibility for the CALF Guidance Document) outside the scope of the P269 solution, to avoid delaying P269. One member believes this is an example of why a separate Issue Group discussion of the long-term implications of embedded generation would be beneficial.

P269 costs

The total central implementation cost for P269 is approximately £43k.

This comprises:

- £17k in CRA costs; and
- £26k (110 man days) in ELEXON effort.

These costs include updating processes and documentation (see below), amending the P/C Status calculation rules within BSC Systems, testing the revised systems, publicising implementation to Parties and managing the P269 implementation project.

If the P268 Proposed Modification and P269 are implemented together, this will deliver a 33% saving from their combined separate costs. If P269 is implemented with the P268 Alternative Modification, then the total saving will be 42% (effectively subsuming the P268 project overheads within those for P269). See the separate P268 Draft Modification Report for further details.

One Workgroup member believes that the P269 implementation costs are high for what they consider to be a simple change. ELEXON notes that P269 requires amendments to BSC Systems (see below), and that any systems change has associated development, testing and project management costs.

P269 impacts

Impact on BSC Systems and process

System/Process	Impact
CRA	P269 will amend the P/C Status calculation in CRA systems. You can find a detailed description of the system impact in Attachment A.

Impact on BSC Parties and Party Agents

P269 will impact the Lead Parties for all Supplier BM Units and any embedded Exempt Export BM Units in Base Trading Units which have not chosen a specific fixed P/C Status.

Impact on Transmission Company

None. The Transmission Company did not respond to the Assessment Consultation, but provided a separate Transmission Company analysis during the Assessment Procedure. In this analysis, the Transmission Company confirmed that it is not impacted by P269. At this stage, it was neutral on whether P269 better facilitated the Applicable BSC Objectives. You can find this [response on ELEXON's P269 webpage](#).

The Transmission Company has subsequently responded to the Report Phase Consultation, confirming that it supports approving P269 (see Section 9 / Attachment G).

Impact on ELEXON

Area of ELEXON's business	Impact
BM Unit/Trading Unit registration	Will need to provide advice/education to Parties on the new P/C Status rules.

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Impact on ELEXON	
Release Management	ELEXON will manage the P269 implementation project.

Impact on Code	
Code section	Impact
Section K 'Classification and Registration of Metering Systems and BM Units'	<p>See draft legal text in Attachment C. The text is unchanged from that provided in both the Assessment Consultation and Report Phase Consultation.</p> <p>One Assessment Consultation respondent has commented on a particular clause in the text, but following further discussion with ELEXON is happy that no changes are needed to the drafting (see explanation below). One Report Phase respondent has commented generally on the part of Section K which P269 amends, and you can find details of their comments in Section 9.</p>

Impact on Code Subsidiary Documents	
CSD	Impact
BSCPs 15 'BM Unit Registration'	Minor changes are needed to reflect the new P/C Status rules for Base Trading Units. See Attachment A for more details, and Attachments D and E for the full draft redlined changes. The Panel has consulted on these changes as part of the Report Phase Consultation. ELEXON has made a minor amendment to the BSCP15 drafting following the consultation (see Section 9).
BSCP 31 'Registration of Trading Units'	Minor changes are needed to reflect the P269 solution. See Attachment A for more details, and Attachment E for the full draft redlined changes. The Panel has consulted on these changes in the Report Phase; no respondents have any comments.
CRA Service Description	Changes are needed to reflect the P269 solution. See Attachment A for more details, and Attachment F for the full draft redlined changes. The Panel has consulted on these changes in the Report Phase; no respondents have any comments.

Impact on other Configurable Items	
Configurable Item	Impact
CRA User Requirements Specification	Changes will be needed to reflect the P269 solution. ELEXON will draft and make these changes during the P269 implementation exercise.
Interface Definition and Design (IDD)	Changes will be needed to reflect the P269 solution. ELEXON will draft, consult on, and make these changes during the P269 implementation exercise.

Other Impacts	
Item	Impact
ELEXON information sheets/guidance notes on Trading Units, BM Units and P/C Status	Will need to correctly reflect the new P269 rules. ELEXON will make these changes during the P269 implementation exercise.

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Other Impacts	
CALF Guidance Document	This currently describes how P/C Status interacts with the credit cover calculation, so may need amendments to reflect P269. ELEXON will take these changes to the ISG during the P269 implementation exercise, and will also progress the remaining credit implications of the P269 issue/solution separately with the ISG (see Section 3).

Assessment Consultation respondent's comment on P269 BSC legal text

One Assessment Consultation respondent commented on the draft BSC legal text. The respondent noted that the draft text deletes existing clause K3.5.6, and initially believed that this clause should be retained.

BSC K3.5.6 states that, if a Supplier fails to submit GC/DC values when registering a BM Unit, then each Base BM Unit and each Additional BM Unit of that Supplier shall automatically be Consumption BM Units (i.e. shall automatically have a P/C Status of Consumption).

ELEXON has clarified that P269 makes this clause redundant. This is because P269 will automatically fix all (non-Exempt Export) Base BM Units and Additional BM Units as Consumption BM Units, regardless of whether or not Suppliers submit GC/DC values or what those values are.¹³ **It does not remove the BSC's obligation on Suppliers to submit GC/DC values.**

In addition, K3.5.6 appears to serve little purpose under the existing Code baseline. This is because K3.3.1(b) already states that if a Supplier fails to submit GC/DC values when its Base BM Unit is registered, then it shall be deemed to have notified zero values. **The BM Unit's Relevant Capacity value of zero will then be used in the determination of its Trading Unit's overall P/C Status.** In practice, it is not possible for a Supplier to fail to notify GC/DC values when registering an Additional BM Unit – as this is a mandatory part of the registration form in BSCP15.¹⁴

On the basis of this clarification, the respondent is happy with the deletion of K3.5.6.

Note on Code Subsidiary Document changes

The Group has developed and agreed the P269 changes to BSCP15, BSCP31 and the CRA Service Description as part of the Assessment Procedure along with the Code legal text.

This has enabled the Group to ensure that any interactions between the P268 and P269 drafting are minimised, such that either or both sets of changes can be implemented as required without one set of drafting being contingent on the other. It also enables the Panel and Parties to have sight of all the changes together, rather than waiting for the Code Subsidiary Document changes to be drafted during the implementation phase. This gives maximum clarity of the P/C Status rules which will apply if P268 and/or P269 are implemented.

We have made a minor change to the BSCP15 drafting following the Report Phase Consultation. You can find further details in Section 9.

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¹³ All (non-Exempt Export) Base BM Units and Additional BM Units are always part of Base Trading Units.

¹⁴ The CRA creates Base BM Units automatically (one per GSP Group/Base Trading Unit) when a new Supplier is registered. **Additional BM Units are only registered on a Supplier's explicit application.**

The Group's **recommended Implementation Dates for P269** are:

- 23 February 2012 (the date of the February 2012 Release), if P269 is approved on or before 13 October 2011; or
- 5 April 2012 (a stand-alone Release), if P269 is approved after 13 October 2011 but on or before 1 December 2011.

The Group notes that the 28 June 2012 Release falls after the start of the Summer 2012 BSC Season on 1 June. It has therefore agreed a fall-back date which is a stand-alone Release in April 2012, to ensure that P269 is implemented before Summer 2012. It notes that this is unlikely to increase the implementation costs, as there are currently no other system changes scheduled for either February 2012 or June 2012 and therefore no significant cost-savings to be achieved from implementing P269 in a normal Release.

One Workgroup member believes that the 4-month implementation lead time is long for what they consider to be a simple change. ELEXON notes that system changes often take longer than this (normally 6-12 months).

No Assessment Consultation respondents **disagree with the Group's proposed** Implementation Dates.

Parallel P268/P269 implementation

The proposed P269 Implementation Dates align with the Group's recommended Implementation Dates, and associated 'decision by' dates, for P268.

The Workgroup agrees that, if both P268 and P269 are approved, then implementing the two changes together in parallel would be beneficial. The Group notes that this would achieve some central cost-savings (see Section 4). It also agrees that a parallel implementation would also be in the interests of clarity/certainty. This is because both changes impact the P/C Status rules, the same Code section and Code Subsidiary Documents, and Exempt Export BM Units. See Section 3 for a description of the interaction between the P268 and P269 issues/solutions.

A parallel implementation will not delay the delivery of the P269 solution. This is because, as a system change, P269 has a longer implementation lead time than P268.

The Proposer's Assessment Consultation response does not express a view as to whether P268 and P269 should be implemented together. All other respondents to the Assessment Consultation support a parallel P268/P269 implementation.

If P269 progresses through the self-governance route, then the Panel will make its **decision to approve or reject P269 in August 2011 and the timing of Ofgem's P268** decision will determine whether the two changes are implemented together. If Ofgem receives both changes for decision, it can time its decisions to achieve a parallel implementation if it considers this is appropriate.



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.

This section explains the views of the Workgroup and Assessment Consultation respondents. You can find the Panel's initial views in Section 8, and the views of Report Phase Consultation respondents in Section 9.

The Group unanimously agrees that P269 better facilitates the achievement of the Applicable BSC Objectives and should be approved.

The Group's views centre on Applicable BSC Objectives (c) and (d). Neither the Proposer nor the Group has identified any impact on Objectives (a) or (b).

Group's initial views (pre-consultation)

This table shows the Group's initial views before issuing its Assessment Consultation. At this stage, all members agreed that P269 better facilitated Applicable BSC Objective (c) and should be approved. All members other than the Proposer were unsure, or did not agree, that P269 better facilitated Applicable BSC Objective (d). However, they believed that P269 better facilitated the Applicable BSC Objectives overall when compared with the existing arrangements.

Initial views: Does P269 better facilitate the Applicable BSC Objectives?		
Objective	Proposer's initial views	Other Group members' initial views ¹⁵
(c) – competition	<ul style="list-style-type: none"> Yes – reduces the risk of imbalance for all existing and potential Parties. 	<ul style="list-style-type: none"> Yes – P269 is a pragmatic solution to the immediate imbalance risk of 'flipping'. Yes - if 'flipping' occurs this could put all Suppliers (and some Exemptable generators) into imbalance without an opportunity for them to take preventative action – this would have a significant negative impact on competition, and P269 prevents this.
(d) – efficiency	<ul style="list-style-type: none"> Yes – removes the need for Parties to invest in systems to monitor and switch their contracted volumes between Energy Accounts in order to avoid imbalance. 	<ul style="list-style-type: none"> Not convinced – although it is the most pragmatic short-term solution, it may not be the best enduring solution (and may create other issues to be resolved) in the long term. Unsure – although it is an appropriate solution to the imbalance issue, it raises questions of principle about the consistent treatment of generation and demand.

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¹⁵ Shows the different views expressed – not all members necessarily agree with all of these views.

Final views (post-consultation)

All Assessment Consultation respondents agree that P269 should be approved.

This table shows the Group's final views after considering the Assessment Consultation responses. A majority of other Group members now agree that P269 also facilitates Applicable BSC Objective (d), on the grounds that it will avoid the administrative disruption of a 'flipping' event. The unanimous recommendation of the Group is that P269 should be approved.

Final views: Does P269 better facilitate the Applicable BSC Objectives?		
Objective	Proposer's views	Other Group members' views ¹⁶
(c) – competition	<ul style="list-style-type: none">Yes – reduces the risk of imbalance for all existing and potential Parties.	<ul style="list-style-type: none">Yes – P269 is a pragmatic solution to the immediate imbalance risk of 'flipping'.Yes - if 'flipping' occurs this could put all Suppliers (and some Exemptable generators) into imbalance without an opportunity for them to take preventative action – this is an unmanageable risk which would have a significant negative impact on competition, and P269 prevents this.
(d) – efficiency	<ul style="list-style-type: none">Yes – removes the need for Parties to invest in systems to monitor and switch their contracted volumes between Energy Accounts in order to avoid imbalance.Yes – there is a benefit to the administration of the BSC in the avoidance of Disputes and issue resolution activities to deal with any 'flipping' event.	<ul style="list-style-type: none">Yes (majority) – there is a benefit to the administration of the BSC in the avoidance of Disputes and issue resolution activities to deal with any 'flipping' event.Not convinced (minority) – although it is the most pragmatic short-term solution, it may not be the best enduring solution (and may create other issues to be resolved) in the long term.Unsure (minority) – although it is an appropriate solution to the imbalance issue, it raises questions of principle about the consistent treatment of generation and demand. May go against the original NETA intent/principles.

Assessment Consultation respondents' views generally mirror the Group's. You can find a summary in Attachment A and the full responses in Attachment B.

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¹⁶ Shows the different views expressed – not all members necessarily agree with all of these views.



Where can I find...?

More details of the Proposer's views?

You can download a copy of the original Modification Proposal, as submitted by the Proposer, from ELEXON's website [here](#).

You can also find the **Proposer's response to the P269 Assessment Consultation** in Attachment B and their response to the Report Phase Consultation in Attachment G.

One Assessment Consultation respondent supports P269 but queries whether, once fixed as Consumption by the P269 solution, the P/C Status of a Base Trading Unit cannot then be changed even by notification. ELEXON has clarified that this is the case, and is the reason why some Group members believe a different solution may be needed in the longer term if one or more GSP Groups become regular net exporters of electricity.

The Group notes that, despite **ELEXON's efforts, no small Suppliers other than the Proposer** have responded to the Assessment Consultation.¹⁷

7 Should P269 be Self-Governance?

What does self-governance mean in practice?

If a change is progressed through the self-governance route this means that the Panel, rather than Ofgem, will decide whether to approve or reject it.

A change can be progressed as a Self-Governance Modification Proposal if the Panel and/or Ofgem believes that it satisfies the Self-Governance Criteria.

Deciding whether a change should be Self-Governance only affects the way in which it is progressed, and is different to deciding whether it should be approved. A change which is not appropriate to progress as Self-Governance may still better facilitate the Applicable BSC Objectives, and vice versa.

P269 is the first change for which self-governance has been requested since Ofgem's Governance Review introduced the process to the BSC in December 2010.

What are the Proposer's, Workgroup's and Panel's views?

The table on the following page summarises the views of the Proposer and other **Workgroup members, as well as the Panel's initial view which it made before the Workgroup's assessment.** See Section 8 for the Panel's most recent view.

The majority view of the Workgroup is that P269 does not satisfy the Self-Governance Criteria and should go to Ofgem for decision. A minority of the Group (the Proposer and one other member) believe that P269 does satisfy the criteria and should be decided upon by the Panel as a Self-Governance Modification Proposal.

The Group notes that, in practical terms, progressing P269 as a Self-Governance Modification Proposal would give certainty that (barring any appeal) it would be implemented on the first proposed Implementation Date. However, this does not necessarily mean that it would be implemented any quicker than if it went to Ofgem for decision – as this would only be the case if Ofgem was unable to make a decision in time for the first Implementation Date.

What are the views of Assessment Consultation respondents?

A minority of Assessment Consultation respondents (including the Proposer) believe that P269 meets the Self-Governance Criteria. The majority of respondents believe it does not. The arguments expressed by respondents for and against Self-Governance largely mirror those in the table on the following page. See Section 9 for the views of Report Phase Consultation respondents.

¹⁷ ELEXON has publicised the P269 issue/consultations through Newscast and the Cross-Codes Electricity Forum, and has used a longer-than-normal Assessment Consultation period of 3 weeks as agreed by the Panel.

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Does P269 satisfy the Self-Governance Criteria?

Proposer's view	Panel's initial view	Other Workgroup members' view
<p>Yes, because:</p> <ul style="list-style-type: none">• P269 does not discriminate against any Party;• P269 will not have a material impact on existing/future consumers, competition, operation of the Transmission System, matters relating to the security of supply, or BSC governance and Modification Procedures;• P269 is designed to prevent an impact on Parties, and not to cause an impact. <p>The Proposer notes the views of other Workgroup members that P269 may not meet the spirit of the Self-Governance process, but believes that it clearly meets the actual words of the criteria.</p>	<p>Yes, because:</p> <ul style="list-style-type: none">• The P269 issue is systemic in the BSC arrangements and has been known about for several years;• P269 will prevent a significant negative impact on competition (imbalance), but its implementation will not significantly affect competition as it preserves the status quo for the majority of Base Trading Units;• P269 is consistent with the spirit of the Self-Governance process/criteria;• P269 is the first change for which Self-Governance has been requested – it is appropriate to initially progress it as Self-Governance so that the Panel can seek the views of the Workgroup and wider industry;• Take comfort in the fact that Ofgem can veto Self-Governance if it disagrees with the Panel's views.	<p>No (majority view), because:</p> <ul style="list-style-type: none">• It will treat Base Trading Units differently to other types of Trading Unit, and will treat exporting GSP Groups as 'demand' rather than 'generation'. This is an appropriate short-term solution, but is a significant departure from the original NETA principles and P/C Status rules.• Self-Governance changes should be 'self-evident'. P269 should be approved, but its long-term implications mean it is not self-evident and should be considered by Ofgem.• While the right short-term answer, P269 will clearly impact competition – there are potential commercial impacts and discrimination issues involved.• Although at face value P269 preserves the status quo, it is significantly changing the BSC rules. <p>Yes (minority view) because:</p> <ul style="list-style-type: none">• Agree with the Proposer and the Panel that it meets the criteria. P269 addresses a potential problem that has been foreseen for a long time; it is straightforward and would be beneficial to Parties; and it will prevent a material impact on competition not cause one.

What are the Self-Governance Criteria?

A Modification Proposal that, if implemented:

a) is unlikely to have a material effect on:

i) existing or future electricity consumers; and

ii) competition in the generation, distribution or supply of electricity or any commercial activities connected with the generation, distribution, or supply of electricity; and

iii) the operation of the national electricity transmission system; and

iv) matters relating to sustainable development, safety or security of supply, or the management of market or network emergencies; and

v) the Code's governance procedures or modification procedures, and

b) is unlikely to discriminate between different classes of Parties.

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What are the next steps?

The Panel has considered the views of the Proposer, other Workgroup members and Assessment Consultation respondents. The Panel provisionally continues to believe that P269 satisfies the Self-Governance Criteria. As required by the Code, the Panel has submitted a Self-Governance Statement to Ofgem explaining its reasons for this view. You can find the Panel's reasons in Section 8.¹⁸

As part of its Report Phase Consultation, the Panel invited Parties to provide further views on whether P269 meets the Self-Governance Criteria. In particular, the Panel asked Parties who believe that P269 should not be Self-Governance to provide more detailed and specific reasons relating to the criteria. **You can find a summary of respondents' views in Section 9 and the full responses in Attachment G.** As required by the Code, and on the **Panel's behalf, ELEXON has submitted all** the Assessment Consultation and Report Phase Consultation responses to Ofgem at least 7 days before the meeting at which the Panel intends to make its decision on P269 (the 11 August 2011 Panel meeting).

The Panel has the ability to change its mind and withdraw its Self-Governance Statement at any time before making its decision to approve or reject P269. Ofgem also has the ability to independently determine that P269 is, or is not, a Self-Governance Modification Proposal. The Panel must comply with any direction from Ofgem, providing that Ofgem makes the direction before the Panel makes its decision whether to approve P269.

At its next meeting on 11 August 2011, the Panel will consider the P269 Report Phase Consultation responses and will proceed as follows:

- If the Panel still believes that P269 meets the Self-Governance Criteria, and Ofgem has not issued a contrary direction, then the Panel will make its decision whether to approve or reject P269; or
- If the Panel no longer believes that P269 meets the Self-Governance Criteria, and Ofgem has not issued a contrary direction, then the Panel will make its final recommendation to Ofgem on whether Ofgem should approve or reject P269.

You can find the full Self-Governance requirements in BSC Section F6, and a copy of the Self-Governance Criteria in BSC Annex X-1.

¹⁸ A copy of the Panel's Self-Governance Statement is also available from ELEXON's [P269 webpage](#).

This section summarises the Panel's initial views after considering the Group's Assessment Report. The Panel has invited the industry to comment on these views as part of its Report Phase Consultation. You can find Report Phase respondents' views in Section 9.

Views on Applicable BSC Objectives

The Panel unanimously agrees that P269 better facilitates the achievement of Applicable BSC Objectives (c) and (d) for the reasons given by the Group, and should therefore be made. The Panel gives more weight to the benefits under Objective (d) than to those under Objective (c).

Views on Implementation Date and legal text

The Panel unanimously agrees with the Implementation Dates proposed by the Group. It has a strong preference for the first Implementation Date (23 February 2012) in order to resolve the issue as soon as possible.

The Panel unanimously agrees with the Group's redlined changes to the Code and Code Subsidiary Documents.

Views on Self-Governance Criteria

The Panel notes that P269 is the first BSC Modification Proposal to seek Self-Governance. The Panel believes that, as the first Self-Governance request, there is naturally an element of testing the parameters of the criteria until it can establish BSC precedent.

The Panel unanimously believes that P269 meets the Self-Governance Criteria. In support of this view, the Panel has provided the following reasons:

- 1) P269 addresses an issue which is systematic in the BSC arrangements and has been known about for several years.
- 2) P269 is straightforward and beneficial.
- 3) P269 does not discriminate against any Party.
- 4) P269 will not have a material impact on existing/future consumers, competition, operation of the Transmission System, matters relating to the security of supply, or BSC governance or Modification Procedures.
- 5) P269 will prevent a significant negative impact on competition (imbalance). Its implementation will neither be detrimental to competition nor significantly affect competition, as it preserves the status quo for the majority of Base Trading Units.
- 6) The benefits and impacts of P269 relate more to efficiency in the BSC arrangements than to competition.

The Panel notes the majority view of P269 Workgroup members and Assessment Consultation respondents that P269 does not meet the Self-Governance Criteria. As part of its Report Phase Consultation, the Panel has asked that Parties who do not support Self-Governance for P269 provide more specific reasons relating to the Self-Governance Criteria. You can find details of the Report Phase responses in Section 9.

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What are Report Phase respondents' views?

Respondents unanimously support the Panel's initial view that P269 should be approved.

There remain different views among respondents on whether P269 meets the Self-Governance Criteria.

This section summarises the responses to the Panel's Report Phase Consultation on its provisional views. You can find the full responses in Attachment G.

Two Parties who previously responded to the Group's Assessment Consultation have not responded in the Report Phase. Two participants (including one small Supplier) who did not respond at the Assessment stage have provided Report Phase Consultation responses.

P269 Report Phase Consultation responses		
Question	Yes	No
Do you agree with the Panel that P269 should be approved ?	6	0
Do you agree with the Panel's recommended Implementation Date?	6	0
Do you agree with the Panel that the redlined changes to the Code, BSCP15, BSCP31 and CRA Service Description deliver the intention of P269?	5	0
Do you agree with the Panel that P269 meets the Self-Governance Criteria?	4	2

Views on Applicable BSC Objectives

All respondents agree with the Panel's initial view that P269 should be approved, and there are no new arguments.

Views on Implementation Date

All respondents support the Panel's proposed Implementation Date, and there are no new arguments.

One respondent has suggested that implementing the Code changes earlier, and allowing the systems to 'catch up' later, would reduce the risk of 'flipping' occurring in the meantime. The Group has previously considered and discounted this suggestion for the reasons given on page 9 of Section 2.

Views on legal text and CSD redlining

All respondents who have provided a 'yes' or 'no' view support the draft changes. There are no new arguments among these respondents' views.

One respondent has not answered 'yes' or 'no', but has provided a number of comments (see table on the following page). We have made a minor change to the BSCP15 redlining in Attachment D as a result. The BSC, BSCP31 and CRA Service Description drafting remain unchanged from the Assessment Report.

Respondent's comment	ELEXON's response	Change made?
Accept that K3.5.6 is no longer required.	N/A – respondent is confirming that they accept the deletion of K3.5.6 following their discussion of this clause with ELEXON at the Assessment Consultation stage (see Section 4).	No.
Successive changes by previous modifications, culminating in P269, make K3.5 more convoluted than it needs to be. A Party must read the exceptions very carefully.	We note the respondent's point . Each time a new exception to a rule is created, this adds additional complexity to the BSC arrangements – however clearly it is drafted into the Code. This extra complexity has to be weighed against the principles/benefits of the exception. Both P268 and P269 impact Section K3.5. The structure of the drafting (e.g. ordering of paragraphs) has therefore been constrained by the need to avoid any interaction between the two different sets of legal text. The Group has endeavoured to make the P268 and P269 rules as clear as possible within the existing structure of Section K.	No.
Timescale is not consistent throughout BSCP15 3.8.	The respondent has raised this in their P268 comments (see Section 9 of the P268 Draft Modification Report). It is also applicable to P269, as this particular change appears in both the P268 and P269 BSCP15 drafting. We have corrected the P268 and P269 drafting to ensure that the timescale is consistent throughout the process.	Yes – BSCP15 3.8 drafting amended.

Views on Self-Governance

No individual Parties have changed their views on Self-Governance. However, two Parties who support Self-Governance have responded to the Report Phase Consultation having not previously responded to the Assessment Consultation. Also, two Parties who did not support Self-Governance in the Assessment Consultation have not responded to the Report Phase Consultation. As a result, the majority respondent view has **changed from a 'No' at the Assessment Stage to a 'Yes' at the Report stage**.

Overall, there are no new arguments. However, one respondent has **commented directly on the Panel's reasoning in relation to the Self-Governance Criteria**. We have contacted the respondent to clarify their views. The respondent:

- **Agrees with the Panel's reasons (1), (2) and (3) as outlined in Section 8;**
- **Disagrees with the Panel's reason (5), believing that it is contradictory to state that P269 will not significantly affect competition yet will prevent a significant negative effect on competition; and**
- **Disagrees with the Panel's reason (4), believing that:**
 - **Although P269 will avoid the administrative effort/cost of dealing with a 'flipping' event**, the main benefit of P269 is avoiding the imbalance impact on Parties and thereby on competition. P269 therefore has a material impact on competition under Self-Governance Criteria (a)(ii), and (to the extent that the resulting costs would be passed through by Suppliers) to consumers under Criteria (a)(i); and
 - **The Self-Governance Criteria require the implementation of a Modification Proposal to not have a 'material impact' on competition. They do not say 'material negative impact'. Implementation of P269 has a good material impact on competition (because it prevents imbalances), but a material impact nonetheless.**

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ELEXON invites the Panel to:

- **NOTE** the P269 Draft Modification Report and the Report Phase Consultation responses; and
- **DETERMINE** (in the absence of any Authority direction) whether P269 is a Self-Governance Modification Proposal.

AND:

If the Panel and/or the Authority determines that P269 is a Self-Governance Modification Proposal, then ELEXON invites the Panel to:

- **APPROVE** P269 with an Implementation Date of 23 February 2012, in accordance with the attached BSC legal text and redlined changes to BSCP15, BSCP31 and the CRA Service Description (noting the minor change made to the BSCP15 drafting following consultation);
- **NOTE** that, in accordance with Section F6 of the Code, ELEXON will:
 - **Notify the Authority, Transmission Company and Parties of the Panel's decision on the same day as the Panel meeting;**
 - Finalise the P269 Self-Governance Report,¹⁹ submit it to the Authority, and copy it to Parties and Panel Members within 3 Working Days; and
 - **Copy the Transmission Company's notice** to modify the Code to Parties, Panel Members, the Authority and the other interested Parties specified in F1.1.2(b);
- **NOTE** that the appeal window for P269 will close **15 Working Days after ELEXON's notification of the Panel's decision (i.e. on 2 September 2011);**
- **NOTE** that, if no appeal is raised, P269 will be implemented in accordance with the Panel's determination;
- **NOTE** that, if an appeal is raised in accordance with F6.4.2 and F6.4.10, the Authority will consider the appeal in accordance with the process set out in Section F6.4.

OR:

If the Panel and/or the Authority determines that P269 is not a Self-Governance Modification Proposal, then ELEXON invites the Panel to:

- **CONFIRM** the recommendation to the Authority contained in the P269 draft Modification Report that P269 should be made;
- **APPROVE** an Implementation Date for P269 of 23 February 2012 if an Authority decision is received on or before 13 October 2011, or 5 April 2012 if the Authority decision is received after 13 October 2011 but on or before 1 December 2011;
- **CONFIRM** the recommendation to the Authority contained in the P269 draft Modification Report that, if approved, P268 and P269 should be implemented in parallel;
- **APPROVE** the BSC legal text for P269;
- **APPROVE** the P269 changes to BSCP15, BSCP31 and the CRA Service Description (noting the minor change made to the BSCP15 drafting following consultation);
- **APPROVE** the P269 Modification Report or **INSTRUCT** the Modification Secretary to make such changes to the report as the Panel may specify; and
- **NOTE** that, in accordance with F6.2, ELEXON will notify the Authority, Panel Members, Parties and the other interested parties specified in F2.1.10(a) that P269 is not a Self-Governance Modification Proposal.

¹⁹ The Self-Governance Report will be a renamed version of this Draft Modification Report, updated with the Panel's final discussions and decisions.

11 Further Information

You can find more information in:

Attachment **A**: Detailed Assessment

Attachment **B**: Assessment Consultation Responses

Attachment **C**: Draft BSC Legal Text

Attachment **D**: Draft BSCP15 Changes

Attachment **E**: Draft BSCP31 Changes

Attachment **F**: Draft CRA Service Description Changes

Attachment **G**: Report Phase Consultation Responses

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