

## Report Phase Consultation Responses: P285 'Revised treatment of RCRC for Interconnector BM Units'

Consultation issued on 23 October 2012

We received responses from the following Parties

Company	No BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
TMA Data Management Ltd	0 / 1	Party Agent
SmartestEnergy Ltd	1 / 0	Supplier / Consolidator / Trader
SONI Ltd (System Operator for Northern Ireland)	1 / 0	Interconnector Administrator / Interconnector Error Administrator
RWE Supply & Trading GmbH	10 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent
National Grid Electricity Transmission Ltd	1 / 0	Transmission Company
Drax Power Limited	1 / 0	Generator
IBM UK Ltd for and on behalf of the ScottishPower Group	7 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Centrica	13 / 0	Generator / Trader / Supplier / BSC Party
E.ON	5 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator
BritNed Development Limited	1 / 0	Interconnector Administrator / Interconnector Error Administrator
EDF Energy (late response)	10 / 0	Generator / Supplier / Party Agent / Consolidator / Exemptable Generator / Trader

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

P285  
Report Phase Consultation  
Responses

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## Question 1: Do you agree with the Panel's initial recommendation that P285 should be approved?

### Summary

Yes	No	Neutral/No Comment
9	2	0

### Responses

Respondent	Response	Rationale
TMA Data Management Ltd	Yes	-
SmartestEnergy Ltd	No	<p>Regardless of the flow of payments which result from RCRC we do not agree with the premise underlying this proposal. Whilst there is a correlation between BSUoS and RCRC, the real relationship is between cash-out and RCRC. The correlation exists between BSUoS and RCRC because it is the same generators providing balancing services into the energy and system markets; obviously the prices will track each other, otherwise generators would not be trading efficiently. We are not convinced that there is such a degree of pollution as to be a cause of much of the correlation at all.</p> <p>If a participant is subject to cash-out, they should also be subject to RCRC. We agree with the view that "BSUoS and RCRC are separate cashflows and that changes to the allocation of RCRC under the BSC are not needed in response to the proposed changes to BSUoS allocation under the CUSC .... [and that] the BSUoS charge is a cost-recovery mechanism levied by the System Operator in order to recover the costs incurred in balancing the system. This charge is not comprised solely of the costs of energy balancing actions, but also includes actions taken to alleviate system constraints as well as ancillary service charges, neither of which are related to imbalance."</p> <p>Indeed, if there is an issue of pollution of energy costs within BSUoS, this should be dealt with under the CUSC/the Balancing SCR and not in the BSC.</p>
SONI Ltd (System Operator for Northern Ireland)	Yes	As the energy balancing costs recovered through BSUoS are normally distributed to BSC Parties through the RCRC, it would naturally follow that with the removal of BSUoS charges from Interconnector BM Units, RCRC should also be removed, as both charges are related.

Respondent	Response	Rationale
		Furthermore, it is appropriate to align Parties subject to BSUoS charges with those that are also subject to RCRC charges.
RWE Supply & Trading GmbH	No	We do not believe that the proposal better meets the BSC Objectives. RCRC is a product of the Energy Imbalance charges. Consequently RCRC should apply to all parties that contribute to the EIC. We are concerned that removal of RCRC from generation BM Units will have an impact on incentives to balance, The proposal will also create windfall gains and losses for demand BMUs that relates to imbalances over which they have no control.
National Grid Electricity Transmission Ltd	Yes	For the reasons set out by the Workgroup and discussed by the Panel, we believe that P285 better meets the applicable objectives (a), (c) and (e) and thus we agree with the Panel's recommendation.
Drax Power Limited	Yes	We agree with the Panel's initial view that P285 better facilitates Applicable BSC Objectives (a), (c) and (e). In particular: <ul style="list-style-type: none"> <li>• Against Applicable BSC Objective (a), P285 takes into consideration National Grid's obligations to account for developments arising from European legislation and ensures that appropriate financial BSC arrangements are in place.</li> <li>• Against Applicable BSC Objective (c), P285 aligns RCRC beneficiaries with those that are liable for BSUoS permitting trade across Interconnectors to be based on price differentials, undistorted by RCRC charges/payments. It also prevents Interconnector Users from receiving windfall gains and losses that would arise from being liable for RCRC but not liable for BSUoS.</li> <li>• Against Applicable BSC Objective (e), although RCRC is a redistribution of residual money from the imbalance arrangements, it can be negative, and so could be perceived as a charge on Parties trading across Interconnectors. This could be viewed as contrary to EU Third Package arrangements.</li> </ul>
IBM UK Ltd for and on behalf of the ScottishPower Group	Yes	ScottishPower agrees with the Panel's majority view that this modification would better facilitate Applicable BSC Objectives (a), (c) and (e).  We continue to believe that:-

Respondent	Response	Rationale
		<ul style="list-style-type: none"> <li>• By having the same exclusion made on RCRC as that on BSUoS, any potential anomalous situation would be alleviated and any potential windfall gains or losses would be removed for interconnector users.</li> <li>• The change to RCRC in response to BSUoS amendment resulting from EU target model obligation enables National Grid to efficiently discharge its licence obligations; and</li> <li>• Removals of a perceived charge (in RCRC) on parties trading across interconnectors also fulfil any potential EU third package obligations.</li> </ul>
Centrica	Yes	This modification takes into consideration National Grid's obligations to account for developments arising from European legislation (a). It also aligns RCRC beneficiaries with those that are liable for BSUoS (c).
E.ON	Yes	Now that CMP202 has been implemented P285 should follow.
BritNed Development Limited	Yes	Although we suggested that it might be appropriate for the element of RCRC that relates to the offsetting of imbalances to remain, we note the Workgroup's view that the costs of doing so outweighs the materiality of the proposed solution and are therefore happy to support P285 in its current form.
EDF Energy (late response)	Yes	<p><b>Given that associated CUSC proposal CMP202 has been approved, it would better meet BSC Objectives for P285 to be approved.</b></p> <p>This opinion is based on a view that RCRC is only one part of a wider settlement process by which energy balancing costs (but not other balancing costs) are recovered from energy imbalance parties, with surplus or deficit amounts (created by features of the arrangements) shared between all volumes delivering to, or offtaking from, the system (subject to changes brought by CMP202). The mechanism spans different governances and is split between BSUoS and RCRC only for historical and practical reasons. The opinion is independent of any view whether CMP202 itself meets wider objectives. It is assumed that the benefits of approved CUSC proposal CMP202 outweigh its disadvantages.</p> <p>The current arrangements achieve the overall aim described above by making all delivery and offtake volumes liable for both BSUoS and RCRC, so all volumes act as an intermediary for the transfer of</p>

Respondent	Response	Rationale
		<p>imbalance charges to balancing providers, with any net surplus or deficit amount automatically shared between all volumes. Surpluses and deficits arise both from imbalance charging (due to dual imbalance price not based on a cleared price, together with mandatory gross balancing, and imperfect tagging of non-energy actions in formulating price) and energy balancing costs (due to pay-at-bid rather than a cleared price, and imperfect tagging). The existence of surpluses or deficits cannot definitively be ascribed to one or the other side of the settlement of balancing and imbalance. There might be arguments that surpluses and deficits could be allocated differently, for example to imbalance parties or to balancing providers, rather than all volumes (prior to CMP202) or all non-interconnector volumes (under CMP202 with P285), but these alternative allocations are outside the scope of P285.</p> <p>If the allocation of only one of BSUoS and RCRC is changed, the reasonably equitable process of settling balancing with imbalance breaks down:</p> <ul style="list-style-type: none"> <li>a) If there were no surplus or deficit of energy balancing costs with imbalance charges, a different allocation in BSUoS from that in RCRC would result in different volumes being subject to different proportions of the overall costs/revenues of balancing and imbalance depending on the system direction.</li> <li>b) If there were a net surplus or deficit of balancing costs and energy imbalance charges, it would be shared between different volumes depending on the system direction.</li> </ul> <p>In each case, there is potential to create arbitrary differences in cost allocation between volumes. This would distort competition.</p> <p>With differences in the charging base for BSUoS and RCRC, the direction of any value transfer in any particular half-hour is uncertain, because it depends on the directions and sizes of imbalances and balancing actions. However, this uncertainty doesn't obviously justify such an allocation of costs and revenues.</p> <p>For example, consider a short system where imbalance charges happen to match energy balancing costs. With CMP202, without P285, non-interconnectors collectively pay all the energy</p>

Respondent	Response	Rationale
		<p>balancing costs in BSUoS, while all volumes share the imbalance revenue in RCRC, with less than 100% going to non-interconnectors. Overall, non-interconnectors pay more than previously, interconnectors less, including those that are perfectly balanced. In an equivalent long system, non-interconnectors collectively receive all energy balancing revenue indirectly via BSUoS from balancing providers, while all volumes pay in RCRC for spill payments to parties that were long, with less than 100% from non-interconnectors. Overall, non-interconnectors <u>receive</u> more than previously, interconnectors less, again including those that are perfectly balanced. It could be suggested that on average, as the system fluctuates between long and short, the inequalities would cancel, but this assumes certain net imbalance behaviours. It could be argued that the unequal allocation would increase the incentive on non-interconnectors to avoid a short system where their RCRC revenue no longer matches, and is less than, their energy BSUoS, compared with a long system where they would receive more energy BSUoS than pay RCRC. However, this is not a rational bias in balancing incentive between non-interconnectors and interconnectors. Aligning the cost bases for BSUoS and RCRC would ensure that the corresponding amounts cancel, for whoever is the intermediary for the collective payments, leaving just incentives created by imbalance charges, as at present.</p> <p>Under current arrangements, imbalance charges typically exceed energy balancing costs in a short system, with parties in general receiving more in RCRC than they pay in energy BSUoS charges (a form of surplus). In a long system, spill imbalance payout is typically less than energy balancing receipts so parties in general pay less in RCRC than they receive from energy BSUoS (another surplus). Particular circumstances can give different outcomes, but the current arrangements tend to give this outcome. Prior to CMP202, all volumes were subject to BSUoS and RCRC, so the surplus (or deficit) was shared equally between all volumes at all times.</p> <p>With CMP202, without P285, allocation of the surplus changes. When the system is short, non-interconnectors instead pay 100% energy BSUoS, and receive less than 100% of Residual Cashflow. Total Residual cashflow is typically greater than net energy balancing costs, and net amounts received by</p>

Respondent	Response	Rationale
		<p>non-interconnectors are likely to be a lower net receipt than previously. When the system is long, non-interconnectors receive 100% of energy BSUoS receipts, and pay less than 100% of Residual Cashflow, the magnitude of which is typically less than energy BSUoS, and likely to give a higher net receipt by non-interconnectors than previously. This could be viewed as an incentive to prefer a long system, but is not a rational bias in balancing incentive between non-interconnectors and interconnectors and short and long systems. With P285, symmetric allocation of the "surplus" would reduce or eliminate the relative benefit for non-interconnectors of a long system (and interconnectors for a short system).</p> <p>In each case, P285 would remove the anomalous mismatch of shared amounts, leaving just the surplus (or deficit) to be allocated to non-interconnectors. When the system is short, this is likely to be a benefit, concentrated on non-interconnectors instead of all volumes as at present. When the system is long, it is also likely to be a benefit, also concentrated on non-interconnectors instead of all volumes as at present.</p> <p>CMP202 increases total BSUoS charges for non-interconnectors, whether the system is short or long. P285 would tend to reduce the overall effect of CMP202 by allocating balance/imbalance surpluses entirely to non-interconnectors, but does so in a rational manner, consistent with the apparent intention of CMP202. In an idealised cleared balance/imbalance mechanism, there would be no surplus.</p> <p>While BSUoS and RCRC exist as separate parts of an overall mechanism, instead of a single net charge, any mismatch in the charge base can create transfers between volumes that are not cost-reflective. Unless they meet some other explicit regulatory objective, they can be considered anti-competitive.</p> <p>Maintaining alignment of BSUoS and RCRC should therefore better meet BSC Objective (c) concerning competition. Therefore <b>BSC objective (c)</b> would be better met by P285 given that CMP202 has been approved.</p> <p>Small changes in incentives to balance might occur as a result of CMP202, due to a small shift in allocation of balancing and imbalance amounts between</p>

Respondent	Response	Rationale
		<p>different volumes. Similarly, small changes in incentives to balance might occur if P285 is approved. Because changes in net balance position tend naturally to have opposing effects on BSUoS and RCRC, then maintaining alignment of the cost-base for BSUoS and RCRC should minimise distorting impacts on incentives to balance. We have not considered in detail here the potential impacts of CMP202 itself on balancing incentives, but note that changes to the allocation of surpluses and deficits created by the current arrangements could potentially slightly alter them. The examples given above indicate CMP202 alone creates a small incentive on non-interconnectors to favour a long system, and interconnectors to favour a short system, but not in a rational cost-reflective manner, and P285 would tend to neutralise this effect.</p> <p>The costs for implementing P285 would not result in future process efficiency, therefore there is no obvious benefit against <b>BSC Objective (d)</b>, except maintaining the simplicity in principle of the overall arrangements.</p> <p>There is no obvious requirement of EU obligations to distort the charging for energy imbalance and the recovery of energy balancing costs (albeit that transmission loss energy and all BSUoS charges including energy balancing costs have apparently been deemed to be network charges for the purposes of cross-border trade on interconnectors). Therefore it appears consistent with EU obligations, and therefore with <b>BSC Objective (e)</b>, for the current matched settlement of energy BSUoS and RCRC in relation to energy balancing and imbalance to continue, even if changes are made to other elements of charging for balancing services to meet wider EU objectives.</p> <p>Changes to incentives to balance due to CMP202 are a matter for CMP202. If P285 were implemented in isolation from CMP202, it is difficult to see how the distortion in overall allocation of balancing/imbalance costs would better meet <b>BSC Objective (b)</b> concerning efficiency of system operation. However, with approved CMP202, it is likely that the distorting effect of each on the allocation of overall balancing/imbalance costs should be minimised.</p> <p>Overall, we think BSC Objectives would be better met by aligning the allocation of aggregate energy</p>

Respondent	Response	Rationale
		balancing costs in BSUoS with those of aggregate imbalance charges in RCRC. Given that CMP202 has been approved and implemented, P285 should also be approved and implemented.

## Question 2: Do you agree with the Panel's recommended Implementation Date?

### Summary

Yes	No	Neutral/No Comment
10	1	0

### Responses

Respondent	Response	Rationale
TMA Data Management Ltd	Yes	-
SmartestEnergy Ltd	No	-
SONI Ltd (System Operator for Northern Ireland)	Yes	This should be implemented at the earliest possible date.
RWE Supply & Trading GmbH	Yes	-
National Grid Electricity Transmission Ltd	Yes	Whilst an earlier implementation would be desirable given the approval of CUSC Modification Proposal (CMP) 202, the recommended Implementation Date represents a sensible approach given the materiality of the change.
Drax Power Limited	Yes	It appears that the implementation dates suggested minimise the cost of implementation. As such we agree with the Panel's recommendation.
IBM UK Ltd for and on behalf of the ScottishPower Group	Yes	In view of the implementation of CMP202 on 30 August 2012, ScottishPower agrees that P285 should be implemented as early as possible, irrespective of the decision on P286.
Centrica	Yes	We suggest it would be beneficial if it was sooner, as interconnectors are no longer liable for BSUoS charges.
E.ON	Yes	We agree that prompt implementation is desirable to minimise the time between implementation of CMP202 and P285, but the relatively low materiality means that implementation in the next systems release is appropriate.
BritNed Development	Yes	We agree that this should be implemented at the

Respondent	Response	Rationale
Limited		earliest viable implementation date.
EDF Energy (late response)	Yes	Given that CMP202 has already been implemented, the earliest dates possible seem preferable. However, the materiality is relatively small, and 27 June 2013 (June 2013 BSC Systems Release) or 7 November 2013 (November 2013 BSC Systems Release), depending on when Ofgem's decision is received, with an implementation lead time approximately 5 months, seem practical.

## Question 3: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P285?

### Summary

Yes	No	Neutral/No Comment
10	0	1

### Responses

Respondent	Response	Rationale
TMA Data Management Ltd	Yes	-
SmartestEnergy Ltd	-	No comment
SONI Ltd (System Operator for Northern Ireland)	Yes	The redlined changes to the BSC deliver the intention of P285.
RWE Supply & Trading GmbH	Yes	-
National Grid Electricity Transmission Ltd	Yes	As per assessment response, the proposed legal text appears to meet the proposal's objective.
Drax Power Limited	Yes	We believe it does.
IBM UK Ltd for and on behalf of the ScottishPower Group	Yes	The draft legal text appears appropriate.
Centrica	Yes	-
E.ON	Yes	-
BritNed Development Limited	Yes	The changes appear to deliver the intention of P285.
EDF Energy (late response)	Yes	At T4.10.2, summation of energy accounts "represents the sum over all Energy Accounts a, other than the TC (Non-IEA) Energy Accounts held by the Transmission Company." We note that IEA Energy Accounts held by the Transmission Company only include Interconnector BM Units (K5.5.6), so the proposed blanket exclusion of Interconnector BM

Respondent	Response	Rationale
		Units will result in RCRP being zero for all Transmission Company energy accounts.

## Question 4: Do you have any further comments on P285?

### Summary

Yes	No
2	9

### Responses

Respondent	Response	Rationale
TMA Data Management Ltd	No	-
SmartestEnergy Ltd	No	-
SONI Ltd (System Operator for Northern Ireland)	Yes	If Recommendation P285 is approved and implemented, it would be beneficial to monitor energy imbalances to ensure that with the removal of RCRC, they do not increase due to a lack of incentive to balance.
RWE Supply & Trading GmbH	No	-
National Grid Electricity Transmission Ltd	No	-
Drax Power Limited	No	-
IBM UK Ltd for and on behalf of the ScottishPower Group	No	-
Centrica	No	-
E.ON	No	-
BritNed Development Limited	No	-
EDF Energy (late response)	Yes	1. As the level of licence-exempt embedded generation rises, the volume in BM Units within offtaking Trading Units will fall (as will the volume required from remaining BM Units in delivering Trading Units). This will increase the volatility of the transfer amounts represented by RCRC (and BSUs).

Respondent	Response	Rationale
		<p>2. The intention of CMP201 and CMP202 is to exempt certain classes of user of the GB system from liability for [all] BSUoS charges. The intention of P286 and P285 is to make changes to BSC settlement to maintain consistency of overall energy balancing/imbalance given that part of the settlement is undertaken through energy balancing charges within BSUoS. If the changes to BSUoS are considered valid, then changes to some elements of BSCCo cost recovery, particularly those funding shares currently levied on a very similar basis as BSUoS and RCRC, might also be considered valid, and would maintain consistency across the balancing and settlement arrangements.</p> <p>3. Ofgem's Electricity Balancing Significant Code Review has potential to change the relative levels of energy balancing costs, imbalance charges, surpluses or deficits, and their allocation. This could alter the materialities inherent in P285 and P286.</p>