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27 September 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P70

Dear Colleague,

Modification to the Balancing and Settlement Code ("BSC") - Decision and Notice in relation to Modification Proposal P70: "CMRS Metering for inter-DNO Boundaries within a GSP Group"

The Gas and Electricity Markets Authority (the "Authority")¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P70, "CMRS Metering for inter-DNO Boundaries within a GSP Group".

The Balancing and Settlement Code Panel (the "Panel") recommended to the Authority that the Modification Proposal P70 should be made with an Implementation Date of 10 December 2002, if an Authority decision is received by 1 September 2002, and an Implementation Date of 25 February 2003 if an Authority decision is received after 1 September 2002 and before 25 November 2002.

The Authority has decided not to direct a Modification to the BSC.

This letter explains the background and sets out the Authority's reasons for its decision.

Background

Modification Proposal P70, "CMRS Metering for inter-DNO Boundaries within a GSP Group", was submitted on 1 March 2002 by SEEBOARD Power Networks plc. The justification for the

¹ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² ELEXON document reference P070RR, Version No. 1, dated 22 July 2002

Modification Proposal was that it better facilitated achievement of the Applicable BSC Objectives³ C3 (3) (c) and C3 (3) (d).

An Initial Written Assessment of Modification Proposal P70 was presented to the Panel at its meeting of 14 March 2002. The Modification Proposal was progressed by the Volume Allocation Modification Group (VAMG). The VAMG met three times during the Assessment Procedure, during which time they sent out a Requirements Specification⁴ for consultation. An Assessment Report⁵ was presented to the Panel meeting on 13 June 2002, where it was agreed to send the Modification Proposal to the Report Phase.

The Modification Proposal

Modification Proposal P70 arose as a direct consequence of Modification Proposal P62, "Changes to Facilitate Competitive Supply On the Network of New Licensed Distributors". Modification Proposal P62 deals with the issues around facilitating new licensed distributors to participate in the electricity industry and to meet their obligations under the Utilities Act 2000. During the discussions on these issues, it was suggested that it would be desirable to have the option to place a Central Meter Registration Service (CMRS) registered meter at the connection point of the existing Distribution Network and any new Distribution Network.

Modification Proposal P70 seeks to modify the BSC so as to permit the registration of a meter at the connection point between two distribution networks within the same Grid Supply Point (GSP) Group in CMRS. BSC Section K2.1 currently prohibits the registration of such a meter.

It was claimed that the ability to register such a meter in CMRS and therefore receive consumption data via the Central Data Collection Agent (CDCA) could bring the following advantages:

- Assisting distributors to meet their obligations under their distribution licences, such as reporting losses to the Authority. Since some losses form part of a distributor's financial incentives, it is important that these can be accurately measured
- Correctly allocating Distribution Use of System (DUoS) billing. The absence of such a meter would require the host distributor to know the individual imports of the metering points connected to the embedded distributor network, which may be considered inappropriate
- Providing accurate data collected by an industry standard scheme should improve the quality and availability of data within the system, which could ultimately reflect in an

³ The Applicable BSC Objectives, as contained in Condition C3 (3) of National Grid Company's Transmission Licence, are:

a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
b) the efficient, economic and co-ordinated operation by the licensee of the licensee's 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 and administration of the balancing and settlement arrangements.

⁴ ELEXON document reference P070AS, Version 1.0, dated 10 May 2002

⁵ ELEXON document reference P070AR, Version 1.0, dated 7 June 2002

improved data set for settlement purposes. It would also minimise cost for this data collection, as no parallel data collection system has to be established

Despite these perceived advantages, the VAMG had problems justifying the Modification Proposal under the scope of the Applicable BSC Objectives. Any data from such installed meters would not be used for settlement purposes. The VAMG also noted that the data could be collected outside of the BSC and voted by a 4 to 3 majority to recommend rejection of the Modification Proposal. However, it stated that if the Proposal were to be considered within the wider context of the Authority's objectives, it unanimously agreed that the Authority should approve the Modification Proposal.

When the Assessment Report was presented before the Panel, it noted the VAMG's concerns that the Modification Proposal did not meet the Applicable BSC Objectives. It proposed four reasons why it considered that the Modification Proposal could be seen to meet the Applicable BSC Objectives and these reasons were incorporated in the draft Modification Report.

ELEXON published a draft Modification Report on 25 June 2002, which invited respondents' views by 4 July 2002.

Respondents' views

ELEXON received nine responses to the consultation on Modification Proposal P70. All nine responses (representing 36 Parties) expressed support for the proposed Modification.

The respondents' views are summarised in the Modification Report for Modification Proposal P70, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 18 July 2002 and considered the Modification Proposal P70, the draft Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Authority should approve the Proposed Modification and that, if approved, the Proposed Modification should be made with an Implementation Date of 10 December 2002, if an Authority decision is received by 1 September 2002, and an Implementation Date of 25 February 2003 if an Authority decision is received after 1 September 2002 and before 25 November 2002. Moreover, the Panel noted that in its view, a combination of both Modification Proposal P62 and Modification Proposal P70 would provide a better technical solution and would better facilitate achievement of the Applicable BSC Objectives C3 (3) (c) and C3 (3) (d).

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Modification Proposal P70 does not better facilitate achievement of the Applicable BSC Objectives.

Ofgem has considered the views provided in the consultation responses and notes the high level of industry support for approval of Modification Proposal P70. We also note that most of the potential benefits of registering inter-Distribution Network Operator (DNO) boundary meters within CMRS (e.g. facilitating calculation of Line Loss Factors [LLFs] and DUoS bills) relate to the efficient operation of distribution businesses. It is not immediately clear how these benefits would serve to better facilitate achievement of the Applicable BSC Objectives. This issue was the subject of much of the debate on Modification Proposal P70 within the VAMG. Ofgem notes that the VAMG originally recommended to the Panel that Modification Proposal P70 be rejected.

The Panel has decided to recommend approval of Modification Proposal P70, noting widespread industry support and the difficulties that VAMG experienced in linking it to a relevant BSC objective. It provided four reasons why it believed that Modification Proposal P70 better facilitates achievement of the Applicable BSC Objectives.

Reason 1: the added transparency, efficiency and assurance provided by Modification Proposal P70 would improve overall data quality and confidence in that data, and that this would help promote competition in supply (Objective (c)).

Ofgem is well aware of the data quality issues within supplier volume allocation and of the corrective measures that Elexon are in the process of initiating with supplier hubs. Only now have we been made aware of industry opinion suggesting the registration of non-settlement meters within GSP Groups as a means of mitigating these problems. However, if industry parties wish to pursue this course of action it would seem more appropriate to establish some clear criteria for such arrangements (e.g. data quality triggers, typical locations within GSP Groups for such meters) rather than to confine them to an unrelated event such as the establishment of a new licensed distribution network. Ofgem notes that the BSC currently does not make provision for monitoring Public Distribution System Operator (PDSO) performance.

Reason 2: the additional complexity of settlement, and in particular the composition of GSP Groups, as a result of Modification Proposal P62 is such that the presence of such a meter may in some circumstances be required to maintain effective competition in supply. In the case of large networks such a meter would help quantify the impact of each network on GSP Group Correction, and hence help the administration of the settlement arrangements (Objective (d)).

This appears to be similar in nature to reason 1. It is the performance of suppliers and their agents that affects GSP Group Correction and not that of the PDSO. It seems to Ofgem that if BSC Parties have concerns in this area then a clearer set of monitoring requirements needs to be developed.

Reason 3: the approval of a single LLF to represent two competing distribution networks will inevitably increase commercial pressures on production of these values. The presence of such a meter under the BSC will increase the transparency and ease the administration of this task (Objective (d)).

The BSC places no conditions upon PDSOs relating to the calculation of LLF. Whilst the implementation of Modification Proposal P70 would bring about operational benefits to

distribution businesses, the derivation of LLF values appears detached from BSC related activities.

Reason 4: the Panel recognised the long lead time associated with the introduction of Modification Proposal P62 and that there would be pressure for interim arrangements. The option of temporarily "adopting" new networks, under a bilateral agreement, would allow the customers of these networks to benefit from competitive supply before Modification Proposal P62 was implemented. Such a meter would be of increased value in the early opening of these networks to competitive supply (Objective (c)).

Temporary "adopting" arrangements prior to implementation of Modification Proposal P62 will involve the new embedded licensed distribution network operator taking Metering Point Administration Service (MPAS) data services from the local service area distributor. These services would involve the maintenance of Metering Point Administration Numbers (MPANs) and other data necessary to facilitate supply by any electricity supplier to every metering point connected to the new network. It is unclear how the registration of a within-GSP Group boundary point meter in CMRS will add value to the operation of these services and therefore competition in supply.

In light of the views outlined above, Ofgem could not be certain that Modification Proposal P70 would serve to better facilitate achievement of any of the Applicable BSC Objectives as they are currently written. We therefore cannot direct that Modification Proposal P70 should be made.

Ofgem notes, that there would appear to be nothing to prevent existing PDSOs from jointly procuring data collection services of a similar nature to that provided by the Central Data Collection Agent (CDCA) but outside the governance of the BSC.

The Authority's decision

The Authority has therefore decided not to direct that Proposed Modification P70, as set out in the Modification Report for Modification Proposal P70, should be made and implemented.

Having regard to the above, the Authority, in accordance with Section F1.1.4 of the BSC, hereby notifies NGC that it does not intend to direct NGC to modify the BSC as set out in the Modification Report.

If you have any questions, please contact me on the above number.

Yours sincerely,



**Iain Osborne
Director of Supply**

Signed on behalf of the Authority and authorised for that purpose by the Authority