



Direct Dial: 020-79017435

18 March 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref : MP No: P41

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Notice in relation to Modification Proposal P41: “Allocation of individual NHH MPANs to different BM Units”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in Modification Proposal P41.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that the Modification Proposal be rejected.

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

This letter explains the background to the modification proposal and sets out the Authority’s reasons for its decision.

Background to the proposal

Utility Link Ltd submitted modification P41 on 27 September 2001.

ELEXON prepared an Initial Written Assessment, which was presented to the Panel on 18 October 2001. The Panel agreed that Modification Proposal P41 should be submitted to the Definition Procedure and that a new Modification Group should be formed to undertake the

¹ Ofgem is the Office of the Authority. The terms “Ofgem” and “the Authority” are used interchangeably in this letter.

exercise. ELEXON prepared on behalf of the Modification Group, a Definition Report which was submitted to the Panel meeting on 13 December 2001. The Panel considered the Definition Report and agreed (by a majority decision) with the Modification Group that the Modification Proposal did not better facilitate achievement of the Applicable BSC Objectives². The Panel agreed that the Modification should proceed directly to the Report Phase with a recommendation to the Authority that the Modification Proposal should be rejected. Following receipt of consultation responses to the draft Modification Report and incorporation of these responses into the Modification Report, that Modification Report was submitted to the Panel meeting on 17 January 2002 which agreed unanimously that the Modification Proposal should be rejected.

The Modification Proposal

Modification Proposal P41 seeks to modify the BSC, relevant Code Subsidiary Documents and other Configurable items so that Suppliers can allocate specific Non Half Hourly Metering systems to specific Balancing Mechanism ("BM") units. At present this functionality only exists for Half Hourly Metering Systems, and groups of Non Half Hourly Metering systems that fulfil specific criteria.

The proposer stated that the approval of Modification Proposal P41 would:

- Improve parties flexibility to more accurately allocate specific demand to specific contracts or generation e.g., customers who choose to be supplied by "Green Energy" could be allocated energy volumes from a BSC Party who operates green generation sources
- Allow parties to improve their risk management
- Allow parties to seek more cost effective contracts for particular multi-site contracts and clearly identify the imbalances on those contracts

On this basis, it was claimed that the Modification Proposal P41 would facilitate the achievement of the Applicable BSC Objective C3 (3) (c), "...promoting effective competition in the generation and supply of electricity, and (so far as is consistent therewith) promoting such competition in the sale and purchase of electricity."

ELEXON published a Draft Modification Report, which was sent out for consultation on 20 December 2001.

Respondents' views

In total, ELEXON received 5 responses representing eight Parties to the consultation on Modification Proposal P41. All of these responses supported the recommendation to reject the Modification Proposal.

² 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 is 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.

The respondents' views are comprehensively summarised in the Modification Report for Modification Proposal P41, dated 21 January 2002.

Panel's Recommendation

The Panel met on 17 January 2002 and considered the Modification Report for Modification Proposal P41, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Authority should reject Modification Proposal P41.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Modification Proposal P41 does not better facilitate the Applicable BSC Objectives.

In reaching its decision, Ofgem noted that not a single consultation response supported the Modification Proposal. Ofgem also noted the lack of response from the parties who most stood to benefit from the proposed changes. Further it has been noted that most of the stated benefits of Modification Proposal P41 could already be achieved by Suppliers using their own systems to keep track of the profiled demand of groups of Non Half Hourly customers.

Ofgem is not convinced of the benefits proposed and agree with the Panel that in any case they are likely be minimal relative to the cost and disruption involved in altering the Supplier Volume Allocation Agent (SVAA) and Non Half Hourly Data Aggregation Agent (NHHDA) systems to cope with the Proposed Modification P41.

Ofgem, therefore, believes that this Modification Proposal would fail to better facilitate the achievement of the BSC objective contained in NGC's Licence Condition C3 (3) (c) (against which it was raised), and agrees with the Panel's recommendation that Modification Proposal P41 should be rejected.

The Authority's decision

The Authority has therefore decided not to direct that Modification Proposal P41 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 Modification Proposal P41.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'DEU', written in a cursive style.

David Edward

Head of Electricity Code Development

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