

Direct Dial: 0207-901-7435

16 October 2001

The National Grid Company, BSC Signatories and
Other Interested Parties

Your Ref:
Our Ref : MP No: P29

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Notice – in relation to Modification Proposal P29: “Improve Efficiency of PARMS Reporting”.

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in Modification Proposal P29: “Improve Efficiency of PARMS Reporting”.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that Modification Proposal P29 should 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

Modification Proposal P29 was submitted on 11 July 2001 by Utility Link Ltd. It proposes changes to the Performance Assurance Reporting and Monitoring System (PARMS) reporting by Suppliers. The Proposal states that these changes would lead to a reduction in Suppliers’ costs, and hence could be seen as a barrier to increasing competition.

ELEXON produced an Initial Written Assessment of the Modification Proposal, which was presented at the Panel meeting on 26 July 2001.

Subsequent to that Panel Meeting, the Draft Report was sent out for consultation. The responses received supported the Panel’s recommendation, with the exception of one “no

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

comment". The Draft Report was amended to explicitly identify assurances given to the Proposer by the Chairman of the Panel, as requested in the Proposer's response to the consultation. At its meeting on the 23 August the Panel approved the final Modification Report.

The Modification Proposal

Modification Proposal P29 seeks to modify the BSC so as to improve the efficiency of PARMS reporting by removing the obligation on Suppliers to report separately for each GSP Group and by removing any serials (that is standards against which Suppliers report) that, as stated, do not provide any value to the performance assurance process.

The Proposal notes that since PARMS was originally devised in 1998, the emphasis on performance monitoring has shifted from peer comparison between GSP Groups, to the performance of individual suppliers and their agents. Suppliers, however, are still obliged to report by individual GSP Group, and the Proposal says, as the number of Supplier Hub increases, this imposes an unnecessary and increasing burden on Suppliers. The Modification Proposal states that this requirement is particularly significant for smaller Suppliers, and could constitute a barrier to competition.

The Modification Proposal further states that the reporting requirement should be further reduced by removing any serials where historical data suggests that performance is not an issue. The Proposal states that it relates only to the removal of serials and that any proposals to introduce new PARMS serials should be the subject of separate Modification Proposals.

ELEXON published a Draft Modification Report on 31 July 2001 that invited respondents' views by 13 August 2001.

Respondents' views

In total, ELEXON received 9 responses to the consultation on Modification Proposal P29. Of the responses, 8 expressed support for the Proposed Modification and the remaining 1 expressed no comment.

The respondents' views are comprehensively summarised in the Modification Report for Modification Proposal P29 dated 16 August 2001.

Panel's Recommendation

The Panel met on 23 August 2001 and considered the Modification Proposal P29, the Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Authority should reject the Proposed Modification P29.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Modification Proposal P29 does not better facilitate the relevant objectives of the BSC since:

- (i) the Proposed Modification P29 cannot be safely and effectively progressed before the review of the Performance Assurance Framework is complete; and
- (ii) to adopt the Proposed Modification without such a review would lead to an un-quantified risk to the integrity of settlement.

On the former point the Performance Assurance Framework review would allow for a full assessment and would form the appropriate context for considering the issues raised in the Proposal. Implementation of this modification proposal would not, therefore, promote efficiency in the implementation and administration of balancing and settlement services as per condition C3.3(d) of National Grid Company's (NGC) licence.

On the latter point, it is Ofgem's view that the un-quantified risk to the integrity of settlement which would arise from pursuing this modification proposal in isolation, carries with it uncertainty. This uncertainty means the Proposal would not better promote effective competition in the generation and supply of electricity and competition in the sale and purchase of electricity. This in turn would not better facilitate achievement of the BSC Objective contained in condition C3.3 (c) of NGC's licence.

Ofgem agrees with the Panel's recommendation that Modification Proposal P29 be rejected.

The Authority's decision

The Authority has, therefore, decided not to direct that Modification Proposal P29 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 P29.

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,

David Edward

Head of Electricity Code Development

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