

Direct Dial: 020-7901 7412

14 March 2002

Mr Nicholas Durlacher  
BSC Panel Chairman  
ELEXON Limited  
1 Triton Square  
London  
NW1 3DX

Your Ref:  
Our Ref : MP No: P12

Dear Nicholas,

**Ofgem's Provisional thinking on the Implementation Date for Modification Proposal P12:  
"Reduction of Gate Closure From 3.5 Hours To 1 Hour"**

These comments are provided in response to the Balancing and Settlement Code Panel's (the "Panel") request, under BSC F2.6.10 (b), for the Gas and Electricity Markets Authority's (the "Authority") view as to whether the proposed Implementation Date for Modification Proposal P12: "Reduction of Gate Closure From 3.5 Hours To 1 Hour" is consistent with the Authority's provisional thinking on the Modification Proposal. Whilst the Authority has received an interim report from the Panel prepared in accordance with BSC F2.6.10 (a), the views expressed in this letter only pertain to the proposed implementation date. The following view is therefore without prejudice to the Authority's considerations after receipt of a Final Modification Report on this Modification Proposal.

This letter explains the background to the Modification Proposal and sets out the Authority's reasons for its provisional thinking.

**Background to the proposal**

NETA is designed to ensure that there is sufficient incentive on participants to balance their individual trading positions and minimise the costs to the National Grid Company plc ("NGC") as System Operator ("SO") of balancing the Transmission System ("System"). Market participants can contract ahead in the forwards, futures and short-term markets to balance their contract position ahead of Gate Closure (3½ hours before real time). Gate Closure is the last point at which Parties can notify their contract position to NETA Central Systems. For each Settlement

Period the metered volumes for each Trading Party are used to determine if the actual volumes taken from, or put onto the System match their notified contractual volumes. Parties with a position of energy imbalance will be exposed to the relevant Energy Imbalance Prices for the relevant Settlement Period.

Following the early experience of NETA some market participant's suggested that the SO is in general trading close to real time for balancing purposes. Some market participants considered that Gate Closure could be reduced and there would still be sufficient time for the SO to carry out its balancing functions.

On 9 May 2001 Damhead Creek Limited proposed Modification P12 to the BSC to reduce Gate Closure from 3.5 hours to 1 hour. The Proposer argued that if parties were able to adjust their contract positions closer to real time, it would reduce participants' imbalance risk and therefore reduce the need to mitigate the risk by over/under contracting. The Proposer also suggested that the imbalance risk was also having a negative impact on liquidity in the short term markets. The Proposer argued that the SO's demonstrated preference for 'just-in-time' balancing action runs counter to the rationale originally used to justify the Gate Closure period, and further it is stifling competition in the generation and supply of electricity.

### **The Modification Proposal**

Modification Proposal P12 seeks to further the relevant BSC Objectives<sup>1</sup> by modifying the BSC to reduce Gate Closure from 3½ to 1 hour.

The P12 Assessment Report is due to be presented at the Panel meeting to be held on 14 March 2002. In the Assessment Phase the Modification Group ('the Group') considered the views of Trading Parties, the System Operator (SO) and the BSC Agent on an appropriate Implementation Date for the Modification Proposal. The Group is proposing to recommend that the Modification should be made effective from Settlement Period 31 on Tuesday 2 July 2002 which is the date preferred by the SO and which the BSC Agent can meet. The Group considers that the Implementation Date should permit a three-month notice period as indicated by the majority of Trading Parties. However, there would not be sufficient time between the date that the Final Modification Report is sent to the Authority for decision and the 2 July 2002 to allow for a three-month notice period.

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<sup>1</sup> The relevant BSC Objectives are contained in Condition C3.3 of NGC's Transmission Licence and 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.

The Group considered how to reconcile a three-month notice period with an Implementation Date of 2 July 2002 and suggested two alternative strategies as follows:

- Recommending an Implementation Date beyond the 2nd July 2002 (either recommending a fixed date such as 1 August 2002, or, alternatively, recommending an Implementation Date linked to three months after a positive decision from the Authority); or
- Recommending an Implementation Date of 2 July 2002, and use the option of seeking provisional thinking on the Implementation Date during the Assessment Phase to promote certainty on the Modification being approved and the acceptability of a 2 July 2002 Implementation Date.

In accordance with Section F2.6.10(b) of the BSC the Panel sought the views of the Authority as to whether the proposed Implementation Date for Modification Proposal P12 is consistent with the Authority's provisional thinking on the Modification.

### **Ofgem's view**

In the development of NETA, Ofgem envisaged that over time, as experience with the new trading arrangements grows, it would be possible to move Gate Closure closer towards real time<sup>2</sup>. Taking into consideration respondents' views during consultation on Modification Proposal P12, Ofgem continues to believe that a reduction in Gate Closure could better facilitate the achievement of the relevant BSC Objectives.

Ofgem<sup>3</sup> believes that, on the basis of the respondents' views undertaken by the Group during the Assessment Phase, an Implementation Date of 2 July 2002 for Modification Proposal P12 would be appropriate.

Ofgem is aware that the BSC Panel can request the extension of the Implementation Date under Section F2.11.8 if it becomes aware of any circumstance which is likely to cause delay in the implementation of an Approved Modification.

Ofgem's views expressed in this letter are without prejudice to the Authority's consideration after the receipt of Final Modification Report on Modification Proposal P12.

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<sup>2</sup> See the Ofgem July 1999 document 'The New Electricity Trading Arrangements'.

<sup>3</sup> Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

Please do not hesitate to contact me on the above number if you have any queries in relation to the issues raised in this letter or alternatively contact Anthony Doherty on 020 7901 7159.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sonia', with a small dot at the end.

Sonia Brown

**Head of Electricity Trading Arrangements**

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