

Alistair Buchanan
Chief Executive



Ref: ab147-07vhl

Stuart Senior
Chief Executive
ELEXON Limited
4th Floor
350 Euston Road
London
NW1 3AW

*Promoting choice and
value for all customers*

5th October 2007

Dear Stuart

BSC modification proposals on zonal transmission losses - review of Oxera's analysis

Four BSC modification proposals, and two alternatives, to introduce locational allocation of transmission losses have been submitted to the Authority for decision: P198, P198 Alternative, P200, P200 Alternative, P203 and P204 ("the proposals"). As part of the industry assessment procedure for the proposals, ELEXON commissioned external consultants Oxera to undertake an independent cost-benefit analysis. Oxera's analysis, which was set out in two separate reports of July 2006¹ and September 2006², was submitted to the Authority as part of the Final Modification Reports for the proposals.

A number of respondents to Ofgem's impact assessment³ and consultation on the Authority's 'minded-to' decisions on the proposals⁴ raised concerns in relation to Oxera's analysis and Ofgem's use of that analysis. Oxera itself, in its response to the minded-to consultation, stated that it considered that the Authority had placed more weight than appropriate on Oxera's analysis in reaching its minded-to decisions.

On 14 September 2007⁵ we published an open letter setting out the Authority's decision that it would be appropriate, in view of respondents' criticisms of Oxera's analysis and the concerns raised by Oxera, to delay taking its final decisions on the proposals until a further review of Oxera's analysis ("the review") had been undertaken.

We intend to commission external consultants to assist with the review and will shortly initiate a commercial tender process for the work. In undertaking the review, it is likely that Ofgem and/or our consultant may require further information in relation to Oxera's analysis.

¹ Reference to Oxera's July report

² Reference to Oxera's September report

³ Ref to IA

⁴ Ref to minded-to

⁵ Reference to delay decision letter

Given that Oxera's analysis was commissioned by ELEXON, it is our intention to submit any formal requests for this information to ELEXON, in accordance with BSC section C3.6. Where the request relates to information not already held by ELEXON, we would expect ELEXON to liaise with Oxera as appropriate in order to source the information. For the avoidance of doubt, such requests to ELEXON will be confined to information on analysis already undertaken by Oxera in relation to the proposals.

In the interests of transparency, we also anticipate that all formal information requests in relation to Oxera's analysis, and associated responses, will be made publicly available on ELEXON's and Ofgem's websites. We also intend to consult on the findings of the review of Oxera's analysis.

We expect ELEXON's full co-operation in this process. I would be grateful if you could respond to this letter to confirm that ELEXON will provide relevant information, in accordance with BSC C3.6, in response to any requests we may make in respect of Oxera's analysis.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alistair'.

ALISTAIR BUCHANAN
CHIEF EXECUTIVE