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The National Grid Company, BSC Signatories and
Other Interested Parties

26 May 2005

Our Ref: MP No P183

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and notice in relation to Modification Proposal P183 “Additional mechanisms for obtaining a valid change of Supplier read”

The Gas and Electricity Markets Authority (the “Authority”)¹ has considered the issues raised in the Modification Report² in respect of Modification Proposal P183 “Additional mechanisms for obtaining a valid change of Supplier read”.

The BSC Panel (the “Panel”) recommended to the Authority that P183 should be approved.

Having considered the Modification Report and the Panel’s recommendation and having regard to the Applicable BSC Objectives³ and the Authority’s wider statutory duties,⁴ the Authority has decided to direct a Modification to the BSC in line with Modification Proposal P183.

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

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

² ELEXON document reference P183MR, Version No. Final/1.0, dated 15 April 2005

³ The Applicable BSC Objectives, as contained in Standard Condition C3 (3) of NGC’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
- e) the undertaking of work by BSCCo (as defined in the BSC) which is:
 - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and
 - (ii) relevant to the proposed GB wide balancing and settlement code; and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

⁴ Ofgem’s statutory duties are wider than the matters that the Panel must take into consideration and include amongst other things a duty to have regard to social and environmental guidance provided to Ofgem by the government.

This letter constitutes notice by the Authority under section 49A Electricity Act 1989 in relation to the direction.

Background

The Customer Transfer Programme (CTP) was formed following concerns expressed by Ofgem and Energywatch in April 2003 relating to perceived difficulties and complexities involved with the change of Supplier process. The CTP considered improvements to the industry processes for transferring customers between Suppliers. From April 2004, workstreams established under the CTP worked on developing a number of proposals for changes to improve the customer experience and to reduce the number of issues associated with the current processes. In the electricity market, the CTP recommended a number of changes to the Master Registration Agreement (MRA) and, to a lesser extent, the BSC.

In order to consider the implementation of the changes proposed to the BSC following this work, Npower submitted Modification Proposal P183, "Additional mechanisms for obtaining a valid change of Supplier read", on 21 December 2004.

The Modification Proposal

Modification Proposal P183 seeks to modify the BSC so as to include provision for an estimated reading, provided on change of Supplier from the old Supplier to the new Supplier, within the definition of Metered Data in the Non Half Hourly (NHH) market. It also proposes that, where both Suppliers have agreed a change of Supplier meter reading following the disputed reads process⁵, this agreed reading should also fall within the definition of Metered Data. Modification Proposal P183 also seeks to include the estimate from the old Supplier (the Old Supplier Estimated Reading or OSER) within the rules of precedence contained in BSCP 504 relating to which meter readings may be submitted into Settlement on a change of Supplier. The OSER would constitute a "fallback" reading under these rules, only being used where no valid actual meter reading is available within ± 5 days of the date on which the Supplier changes. In addition, it proposes that the current requirement on Suppliers to provide all SVA Customer provided consumption data to the relevant NHH Data Collector should be relaxed where the Supplier believed on reasonable grounds and in good faith that it was erroneous, and where this data had been provided in relation to a change of Supplier.

The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective C3 (3) (c). The Proposer considered that the Modification Proposal would improve the accuracy of change of Supplier meter readings entering Settlement and improve the efficiency and timeliness of the change of Supplier process, thereby helping to promote effective competition.

The Panel considered the Initial Written Assessment at its meeting of 13 January 2005 and agreed to submit Modification Proposal P183 to the Assessment Procedure. The Modification Group (the "Group") considered the Modification Proposal on 18 January 2005 and a

⁵ This is prescribed in MRA Agreed Procedure (MAP) 08 – "The Procedure for resolution of disputed readings on change of supplier"

consultation document was issued on 1 February 2005. The Group met again on 14 February 2005 to consider the consultation responses.

ELEXON published a draft Modification Report on 11 March 2005, which invited respondents' views by 29 March 2005.

Responses to ELEXON Consultation

Seven responses were received. Six responses (representing 48 Parties) expressed support for the Proposed Modification, one response (representing a non-Party) opposed the Proposed Modification.

Respondents considered that the Proposed Modification would better facilitate the applicable BSC Objectives by improving the quality of meter readings where a change of Supplier occurs, aligning Settlements more closely with customer billing and improving the timeliness, efficiency and robustness of the change of Supplier process.

One respondent expressed scepticism about whether the proposed OSER would be more accurate than a deemed meter reading. They argued that permitting the use of OSERs could lead to more disputes and conflict between Suppliers and NHH Data Collectors where they do not use the same readings for billing and settlement. The respondent also suggested that the Proposed Modification might reduce the incentive on Suppliers to request an actual meter reading on a change of Supplier.

The respondents' views are summarised in the Modification Report for Modification Proposal P183, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 14 April 2005 and considered the Proposed Modification; the draft Modification Report; 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 implemented on 3 November 2005 if an Authority decision is received on or before 1 June 2005 or on 23 February 2006 if an Authority decision is received after 1 June 2005 but on or before 25 August 2005.

Ofgem's view

Having considered the Modification Report and the Panel's recommendation, Ofgem considers, having regard to the Applicable BSC Objectives and its statutory duties, that Proposed Modification P183 will better facilitate achievement of Applicable BSC Objective C3 (3) (c).

The processes that enable a customer to switch Supplier are pivotal to the effectiveness of competition. It is important that they operate smoothly and effectively so as to prevent

degradation of customers' experience when switching. Ofgem has previously stated its view⁶ that the existing systems and processes in this area may not be fit for purpose, are costly to operate and fail to ensure that transfers take place quickly and reliably. It considers that the extent of exception handling required by Suppliers and difficulties experienced by customers could lead to a reduction in confidence in the change of Supplier process. Back in November 2000, Ofgem, in its consultation document "Improving Customer Transfers", encouraged Suppliers to work on initiatives in a number of areas including better handling of change of Supplier meter readings. It stated its view that the quality of the change of Supplier meter reading is an important element in processing a customer transfer smoothly. In June 2003, Ofgem and Energywatch challenged Suppliers to tackle decisively the problems experienced by some customers when changing to another Supplier.

It was in this context that the CTP was established and the work it has undertaken has produced a number of recommendations. Many of the recommendations put forward have resulted in more extensive proposed changes to areas of governance outside the BSC. Modification Proposal P183 was raised in order to facilitate some of these changes within the rules and processes set out in the BSC.

There are costs to Suppliers associated with poor quality change of Supplier meter readings including exception handling, query resolution and reading disputes. These can take time to resolve, can impact the smoothness of the transfer processes and can cause distress and inconvenience to customers. Modification Proposal P183 would have the effect of increasing the number of meter readings that a Supplier can have access to when registering a customer. In particular, the proposed modification would permit the new Supplier to submit to its Data Collector an estimated reading received from the old Supplier for use as the change of Supplier meter reading where other readings are not available. This would increase the likelihood that the Supplier will be able to submit an accurate reading and could reduce the number of cases where the change of Supplier meter reading is disputed by the old Supplier. Ofgem considers that improvement in the accuracy of the change of Supplier meter reading will lead to a smoother change of Supplier process and an improvement in the customer experience of that process. Ofgem considers that this element of Modification Proposal P183 would therefore better facilitate achievement of Applicable BSC Objective C3 (3) (c).

Ofgem notes that concerns were raised in response to the consultations that the change of Supplier meter readings that are currently deemed appear to be acceptable to Suppliers and that the use of OSERs may lead to more disputes between Suppliers and Data Collectors. Ofgem notes that Modification Proposal P183 was raised by Suppliers who consider that the current arrangements are not acceptable in all cases. In addition, Ofgem notes that any reading that the Supplier elects to submit will be subject to the normal validation by the Data Collector on receipt and therefore cannot be outside the current tolerances of this validation.

The Proposed Modification also seeks to include within the scope of metered data a change of Supplier reading that has been agreed by both Suppliers as a result of the process for disputing and agreeing such a meter reading that is set out in the MAP 08. Ofgem notes that the BSC does not currently provide for some readings that are agreed by suppliers under this process being used for Settlement purposes. It considers that the ability for Suppliers to agree a reading between them and submit it into Settlement is an important part of resolving problems with

⁶ Customer Transfer Process – Discussion Document June 2003, available from Ofgem's web-site (www.ofgem.gov.uk)

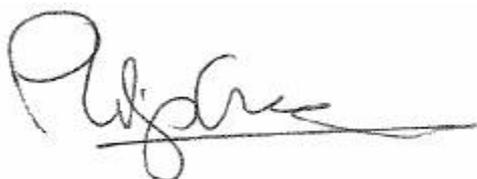
change of Supplier meter readings and bringing Settlement and billing closer into alignment. Ofgem therefore considers that inclusion into the BSC of the ability to process supplier-agreed readings for Settlements following the process permitted by MAP 08 would also better facilitate achievement of Applicable BSC Objective C3 (3) (c).

Modification Proposal P183 also proposes to remove the obligation on Suppliers to submit all meter readings obtained from customers to their Data Collectors where this reading is associated with a change of Supplier event. Currently, all SVA Customer provided consumption data must be submitted by the Supplier even if they believe that such data is inaccurate. Ofgem notes the comments expressed in the Modification Report that Suppliers and their agents may experience unnecessary costs in processing meter readings from customers where it is clear that the reading is erroneous, for example where the customer has provided a reading from the wrong utility meter. In such cases, where it is clear that the submission of the meter reading could negatively impact the change of Supplier process, Ofgem considers that the Supplier should be able to choose the most accurate reading it has for the change of Supplier reading. It considers that this would also better facilitate achievement of Applicable BSC Objective C3 (3) (c). Ofgem notes that the relaxation to this obligation proposed by Modification P183 relates only to readings taken during the change of supplier process.

It is Ofgem's view that Suppliers have an incentive for the change of Supplier meter reading to be as accurate as possible so that they do not receive queries or complaints from customers. It does not consider that Modification Proposal P183 would lead to a reduction in the incentive on Suppliers to obtain actual meter readings. Ofgem considers that it should allow Suppliers to choose the most accurate from a greater sample of meter readings without being required to submit readings provided by customers that are obviously inaccurate.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Philip Davies', with a horizontal line underneath the name.

Philip Davies

Director, Consumer Markets

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