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The National Grid Company, BSC Signatories and
Other Interested Parties

08 June 2004

Our Ref: MP No P164

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) – Decision and notice in relation to Modification Proposal P164 “Housekeeping Modification”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P164, “Housekeeping Modification”.

The BSC Panel (the “Panel”) recommended to the Authority that

- Proposed Modification P164 should be made;
- the P164 Implementation Date of 30 June 2004 if an Authority decision is made by the 16 June 2004 or, 10 Working Days after an Authority decision where an Authority decision is received after that date; and
- the proposed text for modifying the Code, as set out in the draft Modification Report.

Having carefully 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

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

² ELEXON document reference P164MR, Version No. Final/1.0, dated 8 April 2004.

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.

Authority has decided to direct a Modification to the BSC in line with the Modification Proposal P164.

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

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

Background

Modification Proposal P164 identified a number of manifest errors and reference adjustments in the BSC. It was recognised that these defects could be corrected by way of a consolidation of various 'housekeeping' changes.

In order to rectify this situation, the Panel on the recommendation of ELEXON submitted Modification Proposal P164, "Housekeeping Modification" on 12 February 2004.

The Modification Proposal

Modification Proposal P164 seeks to modify the BSC so as to rectify two errors and to correct two other minor inconsistencies within the BSC. It was suggested that if unheeded, these errors and inconsistencies may lead to misunderstandings and confusion, which could potentially impact a Party's understanding of the operation of the BSC. The justification for addressing these defects by way of a consolidated housekeeping Modification Proposal such as Modification Proposal P164 was said to be on the grounds that it offers a more robust and efficient way of administering the arrangements than addressing each defect individually once identified, or awaiting individual disputes and issues to arise

The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective C3 (3) (d).

The Panel considered the Initial Written Assessment at its meeting of 11 March 2004 and agreed to submit Modification Proposal P164 to the directly to the Report Phase.

Respondents' views

ELEXON published a draft Modification Report on 18 March 2004, which invited respondents' views by 26 March 2004. Five responses were received. Four responses (representing 21 Parties) expressed support for the Proposed Modification, 1 response (representing 1 Party) provided a "no comment" response.

The respondents' views are summarised in the Modification Report for Modification Proposal P164, which also includes the complete text of all respondents' replies.

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.

Panel's recommendation

The Panel met on 8 April 2004 and considered Modification Proposal P164, the draft Modification Report and the consultation responses received. The Panel unanimously agreed that Modification Proposal P164 should be submitted to the Authority with the recommendation that it should be made.

The Panel recommended that the Authority should approve the Proposed Modification and that, if approved, the Proposed Modification should be implemented on 30 June 2004 if an Authority decision is made by the 16 June 2004, or 10 Working Days after an Authority decision where an Authority decision is received after that date.

Ofgem's view

Having carefully 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 P164 will better facilitate achievement of Applicable BSC Objective (d).

Having considered the proposed changes, Ofgem's view is that if uncorrected the errors and minor inconsistencies described may lead to misunderstandings and confusion within the industry which could potentially impact a Party's understanding of the operation of the BSC. It is Ofgem's view that reading and understanding of the BSC ought to be as clear and unambiguous as possible at all times. The approval of Modification Proposal P164 will help achieve this.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'N. Simpson', written over a horizontal line.

Nick Simpson
Director, Modifications

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