

Gregory Barker MP

Minister of State

Department of Energy & Climate Change

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Our ref:

Your ref:

Helen Mahy
Company Secretary
National Gas Grid PLC
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29 June 2011

Dear Ms Mahy

**WARM HOME DISCOUNT SCHEME RECONCILIATION MECHANISM:
TRANSMISSION LICENCE AND CODE MODIFICATIONS**

For the purpose of facilitating the establishment and operation of a reconciliation mechanism in connection with the Warm Home Discount scheme established under Part 2 of the Energy Act 2010, the Secretary of State considers it appropriate to modify under section 12(1) of the Energy Act 2010:

- (a) Condition C3 of the Standard Licence Conditions incorporated by virtue of section 8A of the Electricity Act 1989 into a transmission licence under section 6(1)(b) of that Act ("Standard Licence Condition C3"); and
- (b) the Balancing and Settlement Code maintained in accordance with Standard Licence Condition C3.

The Secretary of State has in accordance with section 12(4) of the Energy Act 2010 consulted:

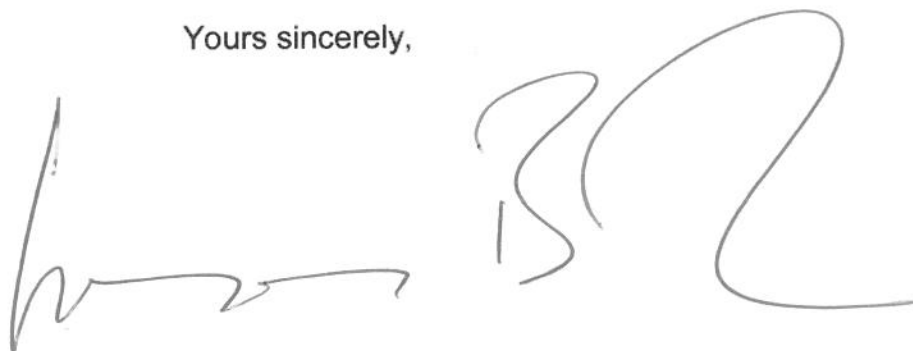
- (a) holders of any licence being modified,
- (b) the Gas and Electricity Markets Authority, and
- (c) such other persons as the Secretary of State thinks it is appropriate to consult.

In the exercise of the powers conferred by section 12(1) of the Energy Act 2010, the Secretary of State makes:

- (a) the modifications to Standard Licence Condition C3 set out in Annex A; and
- (b) the modifications to the Balancing and Settlement Code set out in Annex B,

which are to have effect from 6th July 2011.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a long horizontal stroke.

GREGORY BARKER

A short, diagonal handwritten stroke in black ink.

Annex A – modifications to Standard Licence Condition C3 of the Electricity Transmission Licence

Condition C3: Balancing and Settlement Code (BSC)

1. The licensee shall at all times have in force a BSC, being a document
 - (a) setting out the terms of the balancing and settlement arrangements described in paragraph 2;
 - (b) designed so that the balancing and settlement arrangements facilitate achievement of the objectives set out in paragraph 3;
 - (c) including the modification procedures required by paragraphs 4, 4A to 4C and 13A;
 - (d) including the matters required by paragraphs 6;
 - (e) establishing a secretarial or administrative person or body, as specified in the BSC, (the "code administrator") and setting out the code administrator's powers, duties and functions, which shall;
 - (i) include a requirement that, in conjunction with other code administrators, the code administrator will maintain, publish, review and (where appropriate) amend from time to time the Code of Practice approved by the Authority and any amendments to the Code of Practice are to be approved by the Authority;
 - (ii) include facilitating the matters required by paragraphs 4 and 6;
 - ~~(iii)~~ have regard to and, in particular to the extent that they are relevant, be consistent with the principles contained in, the Code of Practice; and
 - ~~(iii)~~(iv) not prevent or restrict the code administrator or an affiliate of the code administrator from operating the reconciliation mechanism referred to in paragraph 1A.

and the licensee shall be taken to comply with this paragraph by modifying from time to time in accordance with the provisions of paragraphs 4 and 5 and the transition modification provisions, the document known as the BSC which existed and the licensee maintained pursuant to this licence immediately prior to the start of the transition period.

- 1A. The BSC may also include provisions about arrangements for the operation of any reconciliation mechanism established by the Secretary of State under section 11 of the Energy Act 2010 in connection with a scheme for reducing fuel poverty, where the operator of the reconciliation mechanism is the code administrator or an affiliate of the code administrator.

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14. In this condition in the expression "sale and purchase of electricity", sale excludes sale by way of assumption of an imbalance under the BSC and sale by way of supply to premises, and purchase shall be construed accordingly; and

"applicable BSC objective(s)" means

(a) in relation to a proposed modification of the modification procedures, the requirements of paragraph 4 (to the extent they do not conflict with the objectives set out in paragraph 3); and

(b) in relation to any other proposed modification, the objectives set out in paragraph 3.

"transition modification provisions" means the provisions of this condition which apply or applied during the transition period and which enable or enabled the Authority (whether with or without the consent of the Secretary of State) to direct the licensee to modify the BSC in certain circumstances.

"affiliate of the code administrator" means any holding company or subsidiary of the code administrator or any subsidiary of a holding company of the code administrator, in each case within the meaning of section 1159(1) of the Companies Act 2006.

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Annex B – modifications to the Balancing and Settlement Code

SECTION B: THE PANEL (Version 16)

Insert new paragraph 3.1.2A to read as follows:

- 3.1.2A Without prejudice to paragraph 3.1.1 and 3.1.2, the Panel may establish arrangements for resolving disputes pursuant to regulation 14(7) of the Warm Home Discount (Reconciliation) Regulations 2011 and regulations 14(1) to 14(5) shall apply to such arrangements with the modifications that references to an appeal shall be treated as references to a dispute and references to the Secretary of State shall be treated as references to the person appointed to resolve the dispute.
- 3.1.2B Where the Panel establishes a Panel Committee to resolve disputes pursuant to regulation 14(7) of the Warm Home Discount (Reconciliation) Regulations 2011 the provisions of paragraph 5 shall apply to the Panel Committee save for the application of paragraph 1.2 and for the purposes of paragraph 5.5 a decision of such a Panel Committee shall be binding on all Parties.

SECTION C: BSCCO AND ITS SUBSIDIARIES (Version 12.0)

Insert new paragraph 1.2.1A to read as follows:

- 1.2.1A Without prejudice to paragraph 1.2.1, a BSC Company (directly or through any agent) may discharge the functions and responsibilities of the WHD Operator as set out in the Warm Home Discount (Reconciliation) Regulations 2011 subject to the following:
- (a) the appointed BSC Company may discharge the functions and responsibilities of the WHD Operator in accordance with any of the provisions, powers and mechanisms set out in the Code and the Code shall be construed accordingly;
 - (b) each Party and the Panel shall not (whether by action, omission or withholding of consent) prevent or restrict such BSC Company from discharging the functions and responsibilities of the WHD Operator and shall (where applicable) co-operate with all requests for information and payment made by such BSC Company in discharging those functions and responsibilities;
 - (c) each Party (to the fullest extent permitted by law) waives any claim in damages or any other claim of a financial nature (other than for death or personal injury as a result of negligence or for an equitable remedy) against any BSC Company and releases each BSC Company from any such liability in respect of any breach by such BSC Company in connection with its discharge of the functions and responsibilities of the WHD Operator;
 - (d) Parties shall have no liability or obligation to provide financial support to the appointed BSC Company in respect of its discharge of the functions and responsibilities of the WHD Operator;

- (e) the appointed BSC Company shall account for all costs, expenses, liabilities and resources (incurred or used) and for payments (received and made) in the discharge of the WHD Operator's functions and responsibilities separately from BSC Costs and Trading Charges respectively;
- (f) the appointed BSC Company shall provide all information requested by the Authority or Secretary of State in relation to its discharge of the WHD Operator's functions and responsibilities;
- (g) the appointed BSC Company shall provide the Panel with reports from time to time in relation to its discharge of the WHD Operator's functions and responsibilities, provided that such BSC Company shall not be required to disclose to the Panel any information that the Secretary of State or the Authority expressly request such BSC Company to keep confidential;
- (h) in discharging the WHD Operator's functions and responsibilities, the appointed BSC Company has the objective of the efficient and economic discharge of the functions and responsibilities under the Warm Home Discount (Reconciliation) Regulations 2011 and paragraph 1.3.1 shall accordingly not apply to this paragraph 1.2.1A;
- (i) paragraphs 3.4.5(b), 5.1, 5.2 and 7 shall not apply to this paragraph 1.2.1A;
- (j) notwithstanding Section F2, this paragraph 1.2.1A and paragraphs 3.1.2A and 3.1.2B of Section B may not be amended without the prior written consent of the Secretary of State or the Authority; and
- (k) for the purposes of the Code, this paragraph 1.2.1A shall cease to have effect upon the termination of the appointment of a BSC Company as the WHD Operator, save for paragraphs (c), (d), (e), (f), (g) and (i) which shall continue to apply to the extent and for such period as is necessary.

ANNEX X-1: GENERAL GLOSSARY (Version 50.0)

Amend the definition of "BSC Company" to read as follows:

"BSC Company":	means BSCCo and each <u>Subsidiary Affiliate</u> of BSCCo;
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Insert the following new definition in alphabetical order into the general glossary in Annex X-1 to read as follows:

<u>"WHD Operator":</u>	<u>has the same meaning given to the term "the Operator" in the Warm Home Discount (Reconciliation) Regulations 2011;</u>
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