



Direct Dial: 020 7901 7355

2 May 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref : MP No: P52

Dear Colleague,

Modification to the Balancing and Settlement Code ("BSC") - Decision and Direction in relation to Modification Proposal P52: "Non Party Access to the BMRS via the High Grade Service"

The Gas and Electricity Markets Authority (the "Authority")¹ has carefully considered the issues raised in the Modification Report in respect of Modification Proposal P52, "Non Party Access to the BMRS via the High Grade Service".

The Balancing and Settlement Code Panel (the "Panel") recommended to the Authority that:

- I. The original Modification Proposal P52 be rejected
- II. The Alternative Modification Proposal P52 should be accepted, with an implementation date of 20 business days after any approval by the Authority

The Authority has decided to direct a Modification to the BSC.

This letter explains the background to the Modification Proposal and sets out the Authority's reasons for its decision. In addition, the letter contains a direction to The National Grid Company plc ("NGC") to modify the Balancing and Settlement Code ("BSC") in line with Alternative Modification Proposal P52, as set out in the Modification Report.

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

Background to the Proposal

Modification Proposal P52, "Non Party Access to the BMRS via the High Grade Service", was submitted on 14 November 2002 by Seeboard. The justification for the Modification Proposal was the better facilitation of the Applicable BSC Objective² C3 (3) (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".

Following the presentation of the Modification Proposal and the Initial Written Assessment to the Panel on 12th December 2002, it was agreed that the Modification Proposal should be submitted to the Assessment Phase. A consultation was undertaken and the Modification Group reviewed these results at its first meeting on 5th February 2002. It concluded that an Alternative Modification should be made, and this was presented to the Panel on 14th February 2002. This was then submitted to the Report Phase.

The Modification Proposal

Currently, Parties to the BSC have the capability to access a range of data relating to the transmission system on the Balancing Mechanism Reporting System ("BMRS"). This data is available on both a low-grade service ("LGS") and a high-grade service ("HGS"). The LGS uses the Internet as the means for data distribution, and the Party has to "pull" the information from the BSC Agents. The HGS uses a

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

² The Applicable BSC Objectives, as contained in Condition C3 (3) of National Grid Company'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.

dedicated communication line, and has "push/pull" capabilities for sending and receiving information. Non-parties to the BSC have access to the same data through the Internet, but the BSC does not provide for them to gain access through the HGS. This places them at a potential competitive disadvantage due to the differing functionality and speed of data access between the two services.

Modification Proposal P52 seeks to modify the BSC so as to allow for non-BSC parties to obtain access to the BMRS through the HGS, and to introduce a mechanism for charging such Parties in line with the access charges currently paid by BSC Parties. The Alternative Modification Proposal P52 seeks to additionally introduce a signing-up charge of £250, to compensate for administration and development costs that have already been borne by the current BSC Parties in the development of the HGS.

The proposer believes that the implementation of Modification Proposal P52 will facilitate competition and transparency in the electricity market through promoting understanding of the operation of the NETA arrangements by both potential and new entrants to the market.

ELEXON published a Draft Modification Report on 25 February 2002, which invited respondents' views by 4 March 2002.

Respondents' views

In total, ELEXON received nine responses to the consultation on draft Modification Report P52. Of the responses,

- five responses (representing the views of 13 Parties) supported the conclusions;
- one response (representing the views of 3 Parties) supported the principle of non Party access but had issues with the Modification as proposed;
- one response (representing the views of 4 Parties) did not state whether they supported the Modification or not; and
- one response (representing the views of 1 Party) had no comment and one response (representing one non-Party) stated that there would be no impact.

The respondents had four main concerns; firstly, that the level of administration charges as stated in the Alternative Modification Proposal had been set correctly, so that there is no cross-subsidisation; secondly, that the quality of HGS access for Parties should not deteriorate owing to the extra line loading imposed through non-Party access; thirdly, that the lack of qualification testing for non-Parties would affect the integrity of the BMRS system; and finally, that there should be robust checks in place to ensure that non-Party access is restricted to the correct subset of data.

The respondents' views are summarised in the Modification Report³ for Modification Proposal P52, which also includes the complete text of all respondents' replies.

Panel's Recommendation

The Panel met on 14 March 2002 and considered the Original and Alternative Modification Proposal P52, the draft Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Authority should approve the Proposed Alternative Modification and that, if approved, the Proposed Alternative Modification should be implemented 20 business days after any such Authority approval.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Alternative Modification Proposal P52 will better facilitate achievement of the Applicable BSC C3 (3) (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".

Inequalities in access to relevant market information can inhibit effective competition, and may lead to distortions in traded markets. Ofgem believes that access to appropriate market information should be made available on equal terms to all market participants, where it is practical to do so. The provision of non-Party access to the BMRS via the HGS appears to be a suitable instance for implementing this principle, as it will facilitate market transparency and promote understanding of the operation of the NETA arrangements by both potential and new entrants to the market.

As stated in previous decisions⁴, Ofgem considers that cross-subsidisation is harmful to the development of competitive markets. It has been noted that the original Modification Proposal has not given sufficient consideration to the costs of administering the provision of non-party access to the HGS, but that the Alternative Modification Proposal has included a mechanism for recouping these costs, and modifying them in accordance with any cost increases.

³ ELEXON document reference 017MMU, Version No. 1, dated 18 March 2002

⁴ See, for example, the Authority's decision letter for Modification Proposal P30

A number of respondents expressed their concern that an increase in the numbers accessing the HGS would result in a degradation of the quality of the BMRS service. Ofgem agrees that Parties should not have to suffer any operational or financial disadvantage owing to permitting non-Party access to the BMRS, and Ofgem is satisfied that the mechanisms proposed for recouping additional infrastructure development costs from non-Parties are sufficient to maintain the current system quality, if administered correctly. Ofgem believes that it is a matter for the BMRS system administrators to ensure that the appropriate level of line testing is conducted to preserve system integrity, and that non-Party access is restricted to the correct data subset.

The Authority's decision

The Authority has therefore decided to direct that the proposed Alternative Modification, as set out in the Modification Report for Modification Proposal P52, should be made and implemented.

Direction under Condition C3 (5) (a) of NGC's Transmission Licence

Having regard to the above, the Authority, in accordance with Condition C3 (5) (a) of the licence to transmit electricity granted to NGC under Section 6 of the Electricity Act 1989 as amended (the "Transmission Licence"), hereby directs NGC to modify the BSC as set out in the Modification Report for Modification Proposal P52.

The Modification is to take effect 20 business days from the date of this letter approving the Modification Report.

In accordance with Condition C3 (5) (b) of NGC's Transmission Licence, NGC shall modify the BSC in accordance with this direction of the Authority.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

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

Nick Simpson
Director, Industry Codes Development
Signed on behalf of the Authority and authorised for that purpose by the Authority