



Direct Dial: 020-7901-7412

18 February 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Your Ref:
Our Ref: MP No: P49

Dear Colleague

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Direction in relation to Modification Proposal P49: “Timing of Publication of Indicative P18 Option A Prices on the BMRS”

The Gas and Electricity Markets Authority (the “Authority”) has carefully considered the issues raised in Modification Proposal P49 “Timing of Publication of Indicative P18 Option A Prices on the BMRS”.

The BSC Panel (the “Panel”) recommended to the Authority that Modification Proposal P49 be approved with an implementation date of 27 March 2002.

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 BSC as set out in Modification Proposal P49.

Background to the proposal

On the 22 August 2001 the Authority directed that Urgent Modification Proposal P18A should be made and implemented. Modification Proposal P18A sought to remove/mitigate the effect of System Balancing actions in the Energy Imbalance Prices. Given that it was likely that an enduring solution for Modification Proposal P18A would take 6 months to implement an assessment of both an enduring solution and a Workaround was progressed. Modification Proposal P18A was implemented using an interim solution via a Workaround until the NETA Central Systems could be modified.

The enduring solution for P18A is due to be implemented on 27 March 2002. Modification Proposal P18A will delay the calculation of Indicative Energy Imbalance Prices and their subsequent publication on the Balancing Mechanism Reporting System (“BMRS”) of up to 45

minutes after the end of the Settlement Period. The delay will be no more than the original 15 minute delay plus Continuous Acceptance Duration Limit¹ ("CADL") which is currently 15 minutes. However, to allow the flexibility of increasing the value of CADL, up to its maximum of 30 minutes, it is necessary to agree a delay of up to 45 minutes to prevent further system changes being required should the Panel with the Authorities consent vary this parameter upwards.

The 45 minute delay after the end of the relevant Settlement Period has already been incorporated into the Service Description for the Balancing Mechanism Reporting Agent ("BMRA") and in the software changes for the enduring solution. However, this was erroneously not included in the legal drafting of Modification Proposal P18A. The legal text submitted to the Authority on behalf of the Panel omitted a required change to the defined timescales for reporting information relating to a Settlement Period, as defined in Section V2.3.3 of the BSC. Consequently, the BSC currently includes a reporting timescale of 15 minutes after the end of the relevant Settlement Period as opposed to the 45 minutes timescale required for the Modification Proposal P18A enduring solution.

Due to the absence of this change in the legal drafting of the BSC, the enduring solution for Modification Proposal P18A will be inconsistent with the BSC when the former is implemented within NETA Central Systems on 27 March 2002. Unless the BSC is changed as originally intended when Modification Proposal P18A was approved, the BMRA will be in breach of the BSC when the enduring solution is implemented on 27 March 2002.

On 31 October 2001 the BSC Panel raised Modification Proposal P49: Timing of Publication of Indicative P18 Option A Prices on the BMRS. This Proposer suggests that the Modification Proposal would further the achievement of the relevant BSC Objective² of promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

¹ If a single acceptance, or group of acceptances, which makes up a Continuous Acceptance Duration is less than the CADL, then the relevant Bids or Offers will not be included in calculating Energy Imbalance Prices.

² The relevant BSC Objectives are contained in Condition C3.3 of NGC's Transmission Licence and 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.

The Modification Proposal

Modification Proposal P49 seeks to modify the BSC so as to address an anomaly within the approved legal drafting of Modification Proposal P18A. The Modification Proposal proposes to increase the timescale within which the BMRA is to publish Indicative Energy Imbalance Prices on the BMRS from 15 minutes to 45 minutes after the relevant Settlement Period to reflect the maximum possible reporting delay.

At its meeting on 15 November 2001, the Panel recommended that the Modification Proposal should be approved and proceed to the Report Phase, pursuant to BSC Section F2.7. ELEXON published a Draft Modification Report on 21 November 2001 which invited respondents' views.

Respondents' views

In total, ELEXON received seven responses to the consultation on the Draft Modification Report. Of the respondents, five expressed support for Modification Proposal P49. The remaining two were opposed to the Modification Proposal.

The respondents in favour of the Modification Proposal considered that the Modification Proposal improved consistency and accuracy of the BSC. One respondent expressed concern on the grounds of efficiency that the original legal drafting for Modification Proposal P18A did not cover the issue subsequently dealt with in Modification Proposal P49. Some respondents expressed concern at the cost associated with such a minor change to the BSC.

One respondent opposed to the Modification Proposal believed that the timescale for Indicative Price Reporting should be changed from 15 minutes, as is currently the case, to 15 minutes plus CADL. This would initially give a reporting timescale 30 minutes after the relevant Settlement Period (CADL is currently 15 minutes) as opposed to 45 minutes after the relevant Settlement Period as proposed. The other respondent opposed to the Modification Proposal suggested that increasing the reporting timescale from 15 minutes to 45 minutes would make price reporting less timely which is contrary to the relevant BSC Objectives.

Panel's Recommendation

The Panel met on 13 December 2001 and considered the Modification Proposal, the Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Authority should approve the Modification Proposal and that, if approved, the Modification Proposal should be implemented on 27 March 2002. The

Panel concluded that the Modification Proposal would better facilitate the achievement of the relevant BSC Objectives. In particular, the Panel concluded that Modification Proposal P49 would primarily meet the BSC Objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Erratum

The Final Modification Report submitted to the Authority on 17 December 2001 contained a typographical error in the legal text. Modification Proposal P49 could not be approved in its erroneous form. Consequently, on 29 January 2002 ELEXON issued an Erratum in connection with Modification Proposal P49 outlining its intention to submit a revised version of the Final Modification Report to the Authority and inviting responses. No responses were received in relation to the intention to resubmit a corrected version the Final Modification Report. A revised version of the Final Modification Report was issued on 5 February 2002.

Ofgem's view

Ofgem³ considers, having had regard to its statutory duties, that Modification Proposal P49 will better facilitate the achievement of the relevant BSC Objective of promoting efficiency in the implementation and administration of the balancing and settlement arrangements. Ofgem believes that Modification Proposal P49 will ensure that there is consistency between the BSC and the original intention of Modification Proposal P18A. The legal drafting accompanying the implementation of Modification Proposal P18A erroneously omitted a change to the BSC relating to the reporting timescale of Indicative Energy Imbalance Prices. By rectifying the omission from Modification Proposal P18A's legal drafting, Modification Proposal P49 ensures that the BSC is accurate.

The Authority's decision

The Authority has therefore decided to direct that Modification Proposal P49 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 Modification Proposal P49. A copy of the text of the modification to the BSC is attached to this letter.

The modification is to take effect from 27 March 2002.

³ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

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 "Sonia Brown". The signature is written in a cursive style with a large initial 'S'.

Sonia Brown

Head of Electricity Trading Arrangements

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

Attachment 1

Legal Text to give effect to the Proposed Modification

Section V 'Reporting'

2.3.3 BMRS data will be available on the BMRS as follows:

- (a) data provided by the Transmission Company pursuant to Section Q (and listed in Table 1) will be available within 5 minutes after the BMRA received such data from the Transmission Company;
- (b) data relating to a Settlement Period and established by the BMRA in accordance with paragraph 2.6 will be available within 45 minutes after the end of the relevant Settlement Period.