



Direct Dial: 020 7901 7355

15 May 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No: P46

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Direction in relation to Modification Proposal P46: “BSC ‘Housekeeping’ Modification”.

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report in respect of Modification Proposal P46, “BSC ‘Housekeeping’ Modification”.

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

- (i) The Authority should approve this Modification Proposal and
- (ii) If approved, the Modification Proposal should be implemented 5 working days after the date of the Authority’s determination.

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

This letter explains the background 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 Modification Proposal P46, 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.

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

Background

Modification Proposal P46 was raised on 18 October 2001 by the Panel on the recommendation of ELEXON. Under Section F2.1.1 (d)(iv) of the BSC, ELEXON can recommend a Modification Proposal to the Panel to rectify minor inconsistencies, manifest errors or consequential changes where the BSC references are out of date. Section C3.8.8 of the BSC states that ELEXON shall recommend to the Panel a Modification to the BSC that would better facilitate the Applicable BSC Objective² listed in Condition C3 (3) (d) of NGC's Transmission Licence.

At its meeting on 15 November 2001, the BSC Panel directed that the Modification Proposal should proceed directly to the Report Phase in accordance with F2.2.3 (b) (iii) of the BSC, as the Modification Proposal was deemed to be of a minor or inconsequential nature.

The Modification Proposal

The Modification seeks to rectify a number of inefficiencies and typographical errors in the implementation and administration of the Balancing and Settlement arrangements.

Since Go-live, the Modifications department at ELEXON has been compiling a list of all minor discrepancies and errors in the BSC. The list was then circulated to ELEXON managers in September 2001 and subsequently reviewed by ELEXON's legal advisors. Following comments from the legal advisors several proposals were further amended or withdrawn. The final Modification Proposal, therefore, was an amalgamation of 36 minor proposals that consisted of the following categories:

Self-evident errors: Including typographical errors;

Minor inconsistencies: Inconsistencies within the BSC and between the BSC and other documents;

Consequential errors: Parts of the BSC referring to periods now in the past, i.e., the Suspension period;

Efficiency: Changes in the BSC to avoid the unnecessary costs that would be caused by not implementing the change. These have been limited to consequential changes that do not require full consultation.

ELEXON published a draft Modification Report for consultation on 21 November 2001.

Respondents' views

In total, ELEXON received five responses (representing 28 parties) to the consultation on the draft Modification Report for Modification Proposal P46. All of the responses expressed support for the Modification Proposal. Two of the respondents identified a number of minor

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.

amendments to the proposed changes, which were incorporated into the final Modification Report.

The respondents' views are summarised in the Modification Report³ for Modification Proposal P46, which also includes the complete text of their responses.

Panel's Recommendation

The Panel met on 13 December 2001 and considered the Modification Proposal, 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 Modification and that, if approved, the Proposed Modification should be implemented five working days after the date of the Authority's determination.

Following discussion between ELEXON and Ofgem regarding process issues, ELEXON reissued the Modification Report to the Authority on 4 March 2002.

Ofgem's view

Ofgem considers, having regard to its statutory duties, that Modification Proposal P46 will better facilitate the achievement of the relevant objectives of the BSC. In particular the Modification will promote efficiency in the implementation and administration arrangements of the Balancing and Settlement arrangements. The Proposal has no impact on any of the other objectives, as set out in Condition C3 (3)(a) to (c).

Furthermore, Ofgem agrees with the Panel that if these errors and inconsistencies go unremedied it could potentially lead to Trading Disputes or even cause settlement errors, and that it is in the general interests of all Parties that the BSC is as accurate and internally consistent as possible.

Ofgem agrees with the Panel's recommendation that the Modification Proposal should be approved and implemented five working days after this determination.

The Authority's decision

The Authority has therefore decided to direct that the Proposed Modification P46, as set out in the Modification Report for Modification Proposal P46, 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 P46.

The Modification is to take effect five 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.

³ ELEXON Document Reference P46_UMR_Final, Version 1.0, dated 18 December 2001

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