



Direct Dial: 020-7901 7355

23 May 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref : MP No: P83

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Direction in relation to Modification Proposal P83: “Amendment To Process For Past Notification Errors (1)”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P83, “Amendment To Process For Past Notification Errors (1)”.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that it should approve the Proposed Modification and that, if approved, the Proposed Modification should be implemented with immediate effect.

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 P83, 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.

² ELEXON document reference P083UR01, Version No. 1, dated 23 May 2002

Background

Modification Proposal P83, "Amendment To Process For Past Notification Errors (1)", was submitted on 22 May 2002 by Innogy plc. The justification for the Modification Proposal was the better facilitation of the Applicable BSC Objectives³ C3 (3) (a), C3 (3) (c) and C3 (3) (d). Ofgem granted the Modification Proposal urgent status for the purposes of Section F.2.9 of the BSC on 22 May 2002, and also established timescales for the evaluation.

Modification Proposal P83 was issued for consultation at 15:00 on 22 May 2002. Consultation responses were received by 09:00 on 23 May. The Panel considered the Draft Urgent Modification Report on the same day. The Final Urgent Modification Report was sent to the Authority at 14:00 on 23 May 2002.

The Modification Proposal

Ofgem approved Modification Proposal P37 on 10 May 2002. This decision allowed BSC Parties to claim partial rectification of past errors in Energy Contract Volume Notifications ("ECVNs") and Metered Volume Reallocation Notifications ("MVRNs"). Claims had to be notified to ELEXON by 17:00 on 24 May 2002.

Innogy plc claimed that the process was not clear enough where a single error spans a number of Volume Notifications. They claimed that this has made the claims process more complex and time-consuming. Modification Proposal P83 seeks to modify the BSC so as to extend the deadline for claims from 24 May 2002 to 17:00 on 31 May 2002.

The proposer believes that an extension to the deadline is necessary to allow for a proper assessment of the claims process. Modification Proposal P84 seeks to clarify an issue regarding the notification of claims; this was submitted at the same time as Modification Proposal P83.

Respondents' views

In total, ELEXON received twelve responses to the consultation on Modification Proposal P83. Six responses (representing 18 Parties) expressed support for the proposed Modification and the remaining six (representing 34 Parties) were opposed to the proposed Modification.

Supporters of the Modification Proposal stated that the extension of the deadline was necessary to ensure Modification Proposal P84 was properly assessed. They felt that this would ensure claims arising from Modification Proposal P37 would be submitted correctly, so facilitating the Applicable BSC Objective C3 (3) (d).

³ The Applicable BSC Objectives, as contained in Condition C3 (3) of National Grid Company's Transmission Licence, are:

- the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system;
- 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;
- promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

Those against Modification Proposal P83 claimed that the legal text introduced by Modification Proposal P37 was clear about the issues raised in Modification Proposal P84 and that these issues had already been discussed in that consultation process. They felt that the introduction of Modification Proposal P83 at such a late stage of the claim process would only add confusion, thereby hindering the Applicable BSC Objective C3 (3) (d).

The respondents' views are summarised in the Modification Report for Modification Proposal P83, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel held a conference call meeting on 23 May 2002 and considered the Modification Proposal P83, the draft Modification Report 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 with immediate effect.

Ofgem's view

Ofgem considers, having had regard to its statutory duties, that Modification Proposal P83 will better facilitate achievement of the Applicable BSC Objective C3 (3) (d).

Parties have discussed and been consulted on the issues surrounding the £5,000 charge during the Modification Proposal P37 processes. In November 2001, the Panel recommended that the Authority accept Modification Proposal P37. The legal text for implementing these changes has been available since that time. Parties should have had adequate time to consider the issues relating to their particular circumstances.

However, while Ofgem still considers it appropriate that claims arising under Modification Proposal P37 should have to be made promptly, it is also appropriate that Modification Proposal P84 should have an adequate process for consideration in view of its materiality for some Parties and the timeframe for making claims. Ofgem considers that agreeing to this extension allows a short but sufficient time under the timetable it has approved for an appropriate discussion of the issues and consultation on Modification Proposal P84.

Ofgem agrees with the Panel's view that Modification Proposal P83 should be approved. Ofgem does not anticipate that any further extensions to the claim period would be likely to better facilitate the achievement of the Applicable BSC Objective C3 (3) (d).

The Authority's decision

The Authority has therefore decided to direct that the Proposed Modification P83, as set out in the Modification Report for Modification Proposal P83, 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.

The Modification is to be implemented with immediate effect.

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 questions, please 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 of Industry Code Development

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