



Direct Dial: 020-7901 7291

5 February 2003

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P88

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Direction in relation to Modification Proposal P88: “Introduction of obligations in relation to SVA Metering, Meter Operator Agents and Equipment Owners”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P88, “Introduction of obligations in relation to SVA Metering, Meter Operator Agents and Equipment Owners”.

The Balancing and Settlement Code Panel (the “Panel”) recommended to the Authority that Modification Proposal P88 should be made with an Implementation Date of 29 May 2003.

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 P88, 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 P88MR10, Version No. 1.0, dated 23 October 2002

Background

Scottish and Southern Energy submitted Modification Proposal P88, "Introduction of obligations in relation to SVA Metering, Meter Operator Agents and Equipment Owners" on 31 May 2002. The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective³ C3 (3) (c).

The Panel considered the Initial Written Assessment at its meeting of 13 June 2002 and agreed to submit Modification Proposal P88 to the Assessment Procedure, for assessment by the Volume Allocation Modification Group ("the Group"). The Group conducted an impact assessment and consultation as part of the Assessment Procedure. It was the Group's view that the Modification Proposal could better facilitate achievement of Applicable BSC Objective C3 (3) (c) if proper contractual arrangements existed between the participants; otherwise, there was a risk that the proposed Meter Asset Provision (MAP) and Meter Asset Maintenance (MAM) split would not be able to operate effectively.

On 15 August 2002, the Group presented an Assessment Report to the Panel with a recommendation to reject Modification Proposal P88. At that meeting, the Panel considered the Group's concerns and then agreed to extend the Assessment Procedure by one month in order to allow the Group to determine whether concerns about the contractual issues could be addressed outside the BSC. The Panel also requested that the Group consider the importance of ensuring consistency between the BSC and the Master Registration Agreement (MRA), and in so doing to consider whether Modification Proposal P88 better facilitated achievement of the Applicable BSC Objective C3 (3) (d).

At its meeting on 30 August 2002, the Group agreed that Modification Proposal P88 would better facilitate the achievement of the Applicable BSC Objective C3 (3) (d). A revised Assessment Report was then presented to the Panel on 12 September 2002, with a recommendation that Modification Proposal P88 should be made. The Panel determined that Modification Proposal P88 should proceed to the Report Phase.

The Modification Proposal

Following a Review of the Electricity Metering Arrangements (REMA), a REMA Steering Group was established to develop industry solutions to support the introduction of effective competition in metering, including effective competition in Meter Asset Provision (MAP) and

³ 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
- e) the undertaking of work by BSCCo (as defined in the BSC) which is:
 - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements (BETTA); and
 - (ii) relevant to the proposed GB wide balancing and settlement code; and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

Meter Asset Maintenance (MAM) services. The Steering Group established an expert group under the MRA Development Board/MRA Executive Committee (MDB/MEC) governance to progress the necessary changes that may be required to the industry baseline to support effective competition in MAP and MAM.

Modification Proposal P88 states that at present MAP and MAM are only provided as a single 'meter operation' service by Non-Half Hourly Meter Operator Agents. Under the present arrangements, a Supplier who needs a meter to be installed will make a request to a Meter Operator Agent (MOA). The MOA will in turn acquire a meter from a source such as a MAP and pass on any costs to Suppliers as part of its general MOA charges. As a result, Suppliers play no direct part in the acquisition of meters by MOAs, and organisations wishing to provide MAM services become obliged to take on unwanted MAP responsibilities (or vice versa).

Modification Proposal P88 seeks to modify the BSC so as to create a more workable separation between the provision of MAP and MAM services. This in turn would produce greater transparency in metering costs, allow more choice to Suppliers and metering organisations and generate increased competition and therefore reduce prices across the electricity supply industry.

MAP is limited to an "over the counter" service in which a meter is provided fit for purpose to an accredited agent for installation. The MAM service encompasses all fieldwork on meters. It includes the installation of meters, their removal, repair of faults (except in some emergency situations) and meter replacement. For the avoidance of doubt, MAM includes all the fieldwork involved in the recertification process, ie, the removal and replacement of a metering system at a consumer's premise.

ELEXON published a draft Modification Report on 17 October 2002, which invited respondents' views by 30 September 2002.

Respondents' views

ELEXON received eleven responses to the consultation on the above draft Modification Report. Six responses (representing 16 Parties) expressed support for the Proposed Modification whilst three responses (representing 11 Parties) opposed the Proposed Modification. Two of these three responses supported the Modification Proposal in principle, but had concerns over the associated contractual arrangements outside of the BSC. Two respondents (representing 1 Party and 1 Party Agent) provided a "no comment" response.

The respondents' views are summarised in the Modification Report for Modification Proposal P88, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 17 October 2002 and considered the Modification Proposal P88, 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 Modification Proposal P88 should be implemented with an Implementation Date of 29 May 2003.

Ofgem's view

Ofgem considers, having had regard to the Applicable BSC Objectives and its statutory duties, that Modification Proposal P88 should be made. Modification Proposal P88 will better facilitate achievement of Applicable BSC Objective C3 (3) (d) in that it will ensure that the MRA and BSC remain aligned following changes to the MRA relating to REMA.

Respondents have highlighted the importance of ensuring that the MRA and the BSC continue to be in alignment. Some respondents were concerned that at the time the Panel decision was taken, changes to the MRA with regard to REMA were with the Authority on appeal. The Authority determined on 21 and 22 November that the REMA related changes to the MRA and the MRA Data Transfer Network (DTN) should proceed.

Ofgem is mindful of industry concerns about the commercial arrangements that will be required in the event a supplier has already taken advantage of the opportunity to contract for Meter Asset Provision (MAP) and Meter Asset Maintenance (MAM) competitively. Ofgem considers the regulatory framework that is currently in place, in the form of electricity supply standard licence condition 7 and the Competition Act 1998, to be sufficient to bring an action against any outgoing supplier who was not behaving reasonably in their duty to offer terms for meter provision. However, in the interests of providing additional clarity, Ofgem intends to issue guidance to the industry in the future.

Ofgem agrees with the Panel's recommendation that Modification Proposal P88 should be made and implemented. Ofgem notes that in view of the intervening approval of Modification Proposal P63, the proposed legal text regarding Section S may have to be renumbered appropriately.

The Authority's decision

The Authority has therefore decided to direct that the Proposed Modification P88, as set out in the Modification Report for Modification Proposal P88, 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 Implementation Date for Modification Proposal P88 is 29 May 2003.

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 or alternatively contact Claire Edmunds on 020 7901 7331.

Yours sincerely,

A handwritten signature in black ink that reads "Maxine Frerk". The signature is written in a cursive style with a small flourish at the end.

Maxine Frerk

Director of Coordination and Metering

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