

ELEXON

What stage is this document in the process?

O1 Initial Written Assessment

O2 Definition Procedure

O3 Assessment Procedure

Report Phase

P262 'Code Governance Review: Significant Code Reviews, Self-governance and Code Administration Code of Practice'

Consultation Responses

Consultation issued on 1 September 2010

We received responses from the following Parties

Company	No BSC Parties / Non- Parties Represented	Role of Parties/non- Parties represented
RWE npower	10/0	Generator, Supply Company, Trading Company
Scottish and Southern Energy	9/0	Supplier / Generator / Trader / Consolidator / Exemptible Generator
Centrica	10/0	Generator /Trader/Supplier
EDF Energy	13/0	Supplier/Generator/Trader/Co nsolidator/Exemptable Generator/Party Agent
National Grid Electricity Transmission Plc	1/0	Transmission Company
E.ON UK	6/0	Supplier / Generator / Trader / Consolidator / Exemptable Generator
Accenture Services Limited (for and on behalf of ScottishPower)	7/0	Supplier / Generator / Trader / Consolidator / Exemptible Generator / Distributor

Question 1: Would the Proposed Modification P262 help to achieve the Applicable BSC Objectives when compared to the current arrangements?

Summary

Yes	No	Neutral/Other
6	1	0

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Responses

Respondent	Response	Rationale	
RWE npower	Yes	Our view is that MP262 better helps to achieve BSC objectives A & D on the basis that it will allow the Licensee to discharge their License conditions by aligning the BSC with the License (Objective A) and will also improve the efficiency of the change process (Objective D) in the following ways: • SCRs – will improve the efficiency of the change process if significant issues are addressed in a holistic way as oppose to a piece-meal approach led by individual parties' specific interests. • Self Governance – reduces the administrative burden involved with assessing non-material modifications without significantly reducing the level of scrutiny available.	
Scottish and Southern Energy	Yes	level of scrutiny available. We note that Modification Proposal P262 is part of a series of proposals raised by National Grid to implement the Final Proposals of the wider Code Governance Review which was initiated by Ofgem in November 2007 and taken forward for implementation via the Transmission Licence changes in July 2010. We are mindful of the two potential additions to P262 (see our comments to Q2 and Q3 below) and believe both additions should be either (i) incorporated into P262 or if this is not possible (ii) be dealt with by way of an alternative. We concur with the unanimous recommendation of the Modification Group that, in principle, P262 does better achieve the Applicable BSC Objectives, and in particular	
Centrica	Yes	Objectives (a) and (d). We are neutral on (b) and (c). The Modification ensures the BSC is consistent with the Transmission licence and therefore can be said to efficiently discharge the Transmission Company's licence obligations (objective (a)). For clarity this should be read as an endorsement of the BSC modification against the BSC objectives and not necessarily endorsement of the code governance changes to the Transmission Licence.	
EDF Energy	Yes	The proposed modification appropriately aligns the BSC with the Transmission Licence following the licence modifications made to implement Ofgem's code governance review conclusions. Consequently, the proposal better facilitates applicable objective (a).	
National Grid Electricity	Yes	We believe that the P262 Proposed Modification demonstrably achieves the applicable BSC objective (a)	

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Respondent	Response	Rationale	
Transmission Plc		as the proposal has resulted from Ofgem's review of the Transmission Licence; therefore National Grid is mandated by the new licence obligations to make the changes to the BSC where applicable. In addition, the Proposed Modification also achieves applicable BSC objective (d) in relation to the Self-governance process as it can lead to greater efficiencies and reduce the implementation period for proposals progressing down the Self-governance route.	
E.ON UK	No	On balance we do not consider that the proposal better facilitates the applicable BSC objectives. Overall P262 may have been presented as having positive impact under BSC Objective (a), but the impact on all BSC Objectives must be considered and while neutral under (b) P262 would have negative impacts under (c) and (d).	
		Objective a — Yes but not applicable for the Panel Recommendation.	
		Although on the face of it this proposal would better facilitate objective a, this alone cannot be used as justification to recommend implementation of P262. Obligations have been placed on National Grid with respect to BSC modification procedures because National Grid consented to certain licence changes. Other BSC parties did not have a formal right to object or appeal these licence changes. In our view the BSC Panel must have the right to make a recommendation purely based on the merits of the proposal, i.e. Objectives b, c and d. If the Panel were simply required to 'rubber-stamp' an Ofgem originated proposal because it happened to be set out in some detail in National Grid's licence then a potential merits based appeal by affected parties would be precluded under the statutory Energy Code Modification appeals process. If the Panel is prevented from making an unfettered judgement on the merits of a proposal it can no longer exercise its responsibility to make impartial recommendations which is effectively vested in it by this statutory process.	
		Objective b - Neutral Objective c - No	 P262
			Assessment Consu Responses
		A key consideration is whether P262 might improve the efficiency and quality of BSC code modification	22 September 201
		decisions, whether these are made by Ofgem or	Version 1.0
		through the industry itself via self governance. While there may be merit in undertaking a thorough review	Page 3 of 16

Respondent	Response	Rationale
		of an area before a modification is raised, if industry participants view a Code change as beneficial they can bring forward modification(s) when appropriate; whereas any such review potentially lasting 12 months+ would increase regulatory uncertainty. Thus SCRs seem likely to have a negative effect on competition, affecting companies' ability to plan ahead so deterring both new entrants and further investment by existing market participants, for whom the costs of managing such risks will increase. Any change to a market framework such as the BSC that provides a mechanism for possibly unwarranted regulatory interventions and risk of frequent changes in policy, increases market uncertainty. Markets that are subject to such uncertainty are less likely to encourage new entrants and thus facilitate competition.
		Any review undertaken without closer industry involvement and a lack of appropriate checks and balances also means the Authority would be acting as both judge and jury and risks producing an impractical, unworkable solution. For the Authority to direct the Licensee to raise a modification to perform a certain function or enforce a particular mechanism risks enforcing a solution that may have unforeseen negative effects for market participants. This may be a particular problem when concerning an area on which the Licensee has no expert knowledge. If the SCR process was to result instead in a report highlighting issues and providing an overview of options from which the industry could develop a solution this would be more practical; development by an industry workgroup in consultation with BSC Parties the most effective process for uncovering potential impacts and developing the most suitable solution. As it is, the proposed process not only calls into question the independence of the Licensee but will stifle timely development of alternative options by industry by 'subsuming' proposals raised during the SCR phase. Preventing industry development of other solutions is inefficient, anticompetitive and risks poorer quality decision-making through limiting the options on the table when a direction is made. Thus would have a negative impact on Objectives (c) and (d). In our view the lack of adequate checks and balances in this proposal further increase regulatory uncertainty. Our view might change in favour of P262 if:
		a higher threshold of support was required for the BSC Panel to recommend implementation

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Respondent	Response	Rationale
		of a proposal that effectively originates from an SCR (such as that set out in P264 "Two-thirds majority requirement for Panel recommendations on licence originated Modifications") and
		b) a limit was introduced on the time that work on an industry proposal could be suspended during an SCR
		It is important to acknowledge that in suggesting these safeguards we are not in any way seeking to question the competence of the decision makers (whether this be Ofgem for SCR modification proposals or the Panel in relation to self governance), but it is nevertheless important to ensure that those entrusted to make decisions are incentivised to make timely decisions of the highest quality. Self-governance will provide the Panel with new powers to make determinations in relation to such proposals and Ofgem has rightly guaranteed appeal rights to it for affected parties in relation to such decisions. Similarly the new powers for Ofgem to effectively originate modification proposals under SCRs means the process for arriving at a Panel Recommendation needs to change in response, to maintain the efficacy of the statutory Energy Code Modification appeals process as envisaged by Parliament.
		In addition an industry proposer's right to progress a modification under the normal modification rules should not be unduly delayed because of an SCR. If the suspension of industry work on such proposals were limited to say 12 months from the commencement of the relevant SCR, this would provide an incentive on Ofgem to progress its SCR in a timely fashion. Again we would not expect this or the appeals safeguard would need to be used very often, but the existence of such procedural checks and balances would help assure the quality of regulatory decisions.
		Objective d — No
		Efficiency in the implementation and administration of the BSC arrangements is enhanced by the quality of decisions. The need for subsequent corrective changes is less likely and much work can be avoided if inappropriate interventions can be avoided in the first

place. If SCRs are to take place potential addition 1 could help support BSC Objective (d). Enabling a

Proposer if they wished to suspend their proposal until

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Respondent	Response	Rationale
		they were able to take account of the SCR outcome might result in development of a more fitting solution and minimise potential duplication, however, the Proposer may see merit in continuing their modification in parallel with work taking place under an SCR of unknown duration and this must remain the default route. As above implementation of SCRs risks stifling development of alternatives and enforcement of inefficient solutions and these negative impacts mean an overall negative impact on (d).
		Self governance seems the most efficient route for minor modifications such as those raised for 'housekeeping' purposes. Although if a modification is so inconsequential as to meet the self-governance criteria it seems doubtful whether it could be a valid BSC Modification Proposal in the first place.
		Regarding the Code Administration Code of Practice, although it is clear that the Code takes precedence and the CACoP is not a Code Subsidiary Document, it would still be clearest and most transparent if interaction with the CACoP and its change process were spelt out in the BSC. This would also support (d).
		However the minor positive impacts under (d) that P262 could bring by incorporating self-governance and CACoP references are significantly outweighed by the negatives under (d) as well as (c) of the proposed process for enabling SCRs. With consequent increased market and regulatory uncertainty P262 does not facilitate this objective and on balance would not better achieve the BSC Objectives.
Accenture Services Limited (for and on behalf of ScottishPower)	Yes	ScottishPower agree with the views that P262 Proposed would help the Transmission Company to efficiently discharge its license by ensuring that the BSC is consistent with the updated Licence obligations and therefore better facilitate the achievement of BSC Objective (a).

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Question 2: Would potential addition 1 provide any additional benefits over and above the Proposed Modification?

Summary

Yes	No	Neutral/Other
7	0	0

Responses

Respondent	Response	Rationale
RWE npower	Yes	It is our view that alternative proposal 1 better meets applicable objective D than both the Baseline arrangements and the proposed modification. The most significant benefit of alternative 1 is in allowing the modification to be consistent with the principles of Subsuming Mods into the SCR phase to avoid duplication of effort.
Scottish and Southern Energy	Yes	We note the six elements of the potential addition 1 (as set out on page 14, under "6 Potential addition $1-$ suspending the progress of Modifications raised before a SCR Phase").
		In our view, there would be clear be benefits in being able to delay work on a Modification Proposal that is linked to a SCR, but raised before a SCR Phase (and thus unable to be subsumed). As the Modification Group noted, progression of the Modification Proposal in this circumstance could potentially lead to duplication of work with that being completed under the SCR. This is both consistent with the underlying rationale for Subsuming Modification Proposals raised during the SCR Phase and also more economic and efficient (in avoiding undertaking duplicate, and perhaps redundant, analysis etc.).
		We concur with the Modification Group that a Proposer may wish to suspend work on their Modification pending an outcome of the SCR, so they could amend their proposal based on the SCR findings and thus submit the best possible solution, in their opinion, to the Authority.
		We therefore agree with the unanimous view of the Modification Group that this is a sensible improvement on the Proposed Modification.
Centrica	Yes	Centrica supports the arguments provided by the Modification Group.

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Respondent	Response	Rationale
		This would also allow for any necessary analysis to be undertaken at a point where it will not be considered outdated when Ofgem consider the modification for decision. If analysis for a modification is done at the start of an SCR, then this could be 2 years before the point at which Ofgem considers the modifications raised from the conclusions of the SCR. Allowing for the modification (and therefore the analysis) to be put on hold would provide additional benefits under objective (d) by not having to duplicate this later.
EDF Energy	Yes	Allowing the proposer of a modification raised before the commencement of an SCR to seek suspension on their proposal due to it being linked to a current SCR would introduce greater flexibility and efficiency into the governance process. For example, it could potentially prevent duplication of work with that being undertaken by the SCR process. Consequently, addition 1 would better facilitate applicable objective (d) over and above the original proposal
National Grid Electricity Transmission Plc	Yes	We believe that potential addition 1 would provide an additional benefit over the Proposed Modification as it could lead to a more efficient process by reducing any potential duplication of work which may already have been carried out within an ongoing SCR. We agree with the Working Group that it better facilitates applicable BSC objective (a) and (d) as it promotes efficiency within the modifications process. National Grid is neutral with regards to BSC objective (b) and (c).
E.ON UK	Yes	It would make sense to incorporate this option to enable a Proposer to defer development of their solution until they can bear in mind the SCR outcome if they wish and avoid potential duplication of work, but only if the Proposer sees a benefit in waiting until the SCR has concluded. The default must remain for the modification to continue through the usual modification process; a Proposer may well wish analysis on their modification to be undertaken at the same time as analysis in the SCR, so that it is considered against the same baseline and available for consideration by the Panel/Authority as a potential alternative solution around the same time as the SCR is concluding.
Accenture Services Limited (for and on behalf of ScottishPower)	Yes	ScottishPower agree that suspension of not subsumed but related mod within the SCR phase would potentially prevent the same work being done and therefore better facilitate the achievement of BSC Objective (d) – efficient administration. We also accept that it may potential encourage small Parties to raise and participate in the Modification Procedures, who may not have the resources to be involved in the SCR

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Respondent	Response	Rationale
		process, and as such may also better facilitate the
		achievement of BSC Objective (c) - competition.

Question 3: Would potential addition 2 provide any additional benefits over and above the Proposed Modification?

Summary

Yes	No	Neutral/Other
5	2	0

Responses

Responses		
Respondent	Response	Rationale
RWE npower	Yes	It is our view that by getting Panel agreement on any Elexon raised changes to the CACoP, proper scrutiny is ensured by industry representatives. This reduces the risk of a change being implemented which would have a detrimental impact on the BSC arrangements via the CACoP.
Scottish and Southern Energy	Yes	We note the comments on page 13, under "Code Administration Code of Practice Change Process" (CACoP) that:-
		"the Proposer and ELEXON believe the detail of the CACoP change process should be contained in the CACoP and not in the BSC."
		We believe this is a 'red herring'. We are not aware of any suggestion to, in some way, incorporate "the detail of the CACoP change processin the BSC".
		Rather, its about Elexon, as BSCCo, acting as the Code Administrator of the BSC (which is set out in the BSC, not the CACoP). We believe that Elexon, as the (BSC) Code Administrator, in performing its duties as Code Administrator, is only acting in accordance with the BSC and on behalf of the Panel and should not be acting in its own right per se.
		We believe that if the Code Administrator (Elexon) was able to raise a CACoP change, in its own right without recourse to explicit Panel agreement, that this would place the Code Administrator in a serious 'conflict of interest' situation which would run counter to the principles of good governance practice; as has been set

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Respondent	Response	Rationale
		out by various Parliamentary and Standards in Public Life bodies recently.
		The inclusion of an explicit requirement for Panel approval would, in our view, (i) conform with good governance principles (ii) would act as a reasonable 'check & balance' and (iii) comply with the existing principle used in the BSC (where Elexon is unable to raise, in its own name, a change to the BSC but rather requires the approval of the Panel).
		Furthermore, the suggestion (on page 13) that because "the approval of [CACoP changes] will sit with Ofgem" this somehow means that its therefore suitable for Elexon to be able to raise a change to the CACoP in its own name is, in fact, fatally undermined by the approach used in the BSC currently (where, as with the CACoP, Ofgem approves such changes, suggested by Elexon, but progressed with Panel approval). For the avoidance of doubt, we do not advocate Elexon being able to raise a change to the BSC, in its own right, without explicit Panel approval.
		In addition to this we are also mindful of the comments expressed by the Ofgem representative at the recent CAP179 Working Group meeting concerning the desirability to ensure that the suggested CUSC change includes an option along the lines of the recommended BSC change (P250). Given this, it seems highly desirable, as a minimum, that an Alternative (to P262) includes this option (of explicit Panel approval for Elexon to proceed with CACoP changes) to ensure that the CUSC approach, as set out in CAP185 (which does not permit the Code Administrator to raise a CACoP change without explicit Panel approval) be available for the Authority to consider (to ensure consistency across the Codes).
		Finally we note the comments in the equivalent CUSC change (CAP185) at the end of paragraph 4.6 of that Working Group consultation document (published on 4 th August 2010), namely:-
		"The National Grid representative agreed to consider the issue further and take legal advice on the implications of including such a requirement within the CUSC."
		It was our understanding, based on the discussion at the industry workshop held on 23 rd June 2010 at

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Respondent	Response	Rationale	
		Elexon and the clear statements from the representatives of (i) Elexon (ii) National Grid and (iii) Ofgem at that time, that the Code Administrators Code of Practice did <u>not</u> take precedence over the industry codes (such as the BSC). Whist attendees at the workshop expressed scepticism about this, we took these representatives at their word.	
		However, the inference of National Grid seeking legal advice on the implications of including a requirement within the CUSC would appear to be that the CACoP does, after all (and as we had long suspected) take precedence. If this is indeed the case then this reinforces the need for the Code Administrator (Elexon) not being able to raise a change to the CACoP (without explicit Panel approval) as the change they might be seeking could materially benefit them.	
		We therefore wholeheartedly agree with the general consensus of the Modification Group that explicit BSC Panel approval (to allow the Code Administrator to raise a CACoP amendment) should be codified in the BSC.	
Centrica	Yes	It is important that Code Administrators should not be able to change the COPs without Panel approval if these documents are to be used as a means to bring harmonisation of the Codes and therefore potentially drive some BSC change. It needs to be clear that the BSC takes precedence over the COP. This would provide the benefits to objective (d) as described in the consultation document and would also have a small positive impact on competition (objective (c)) due to providing greater confidence in the BSC arrangements which would be attractive to new entrants and maintaining competition.	
EDF Energy	Yes	We believe that requiring Elexon to obtain agreement from the BSC Panel before suggesting changes to the Code Administration Code of Practice (CACoP) does provide additional benefits over and above the proposed modification. This addition will provide greater transparency to the industry regarding the development of the CACoP and would also be consistent with the existing BSC Modification Procedures. Consequently it would better facilitate	 P262
		applicable objective (d).	Assessment Consul Responses
		However, although supporting the addition we are	22 September 2010
		unsure as to whether the addition is consistent with the	Version 1.0
		Transmission Licence and would welcome legal advice	Page 11 of 16

Respondent	Response	Rationale
		legal guidance.
National Grid Electricity Transmission Plc	No	We believe that potential addition 2 does not provide any additional benefits over and above the Proposed modification as the change process should be dealt within the Code Administration Code of Practice rather than the BSC. Therefore National Grid believes that it does not facilitate the achievement of any of the objectives as the change process is not detailed within the transmission licence and so including this within the BSC may contradict what is set out within the licence. It has also been noted that Elexon, as the Code Administrator would discuss any changes to the Code Administration Code of Practice with the BSC Panel as a Working Practice.
E.ON UK	Yes	Absolutely. It would be inappropriate for the Code Administrator themselves to have the power to alter the Code of Practice to which they are supposed to adhere. This should not be possible without the approval of the BSC Panel.
Accenture Services Limited (for and on behalf of ScottishPower)	No	ScottishPower believe that as a matter of good practice, Code Administrator should discuss any proposed change to the CACOP with the Panel before formally raising it. However, while it may provide more comfort to the industry, we do not see the necessity for explicit approval of the change by the Panel as this would conflict with the Code Administrator's ability to propose change under principle 4 of the CACOP and the updated Licence obligation and therefore could be detrimental to BSC Objective (a).

Question 4: Are there alternative solutions that the Modification Group has not identified, that they should consider?

Summary

Yes	No	Neutral/Other
1	6	

Responses

Respondent	Response	Rationale
RWE npower	No	-
Scottish and	No	See our comments under Q2 and Q3 above.
Southern		
Energy		
Centrica	No	-
EDF Energy	No	-

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Respondent	Response	Rationale
National Grid Electricity Transmission Plc	No	There are no alternative solutions that we have identified
E.ON UK	Yes	As per our answer to question 1, as it has been suggested that SCRs may last for around 12 months it may be appropriate for any subsumed proposals to reenter the standard modification process 12 months after the SCR began if the SCR is still ongoing.
Accenture Services Limited (for and on behalf of ScottishPower)	No	-

Question 5: What are the impacts and costs of the Proposed Modification on your organisation?

Responses

Respondent	Response	Rationale
RWE npower	None	
Scottish and Southern	Yes	We expect the impact and cost of P262 to be minimal.
Energy		However, we believe that the £2,400 figure quoted on page 3 (under "Impacts & Costs") is erroneous in that it fails to record the cost of progressing P262 through the change process which would, if correctly recorded, significantly increase the cost of P262.
Centrica	Minor	Minor process documentation changes to reflect the new modification processes.
EDF Energy	No	No process or systems costs are expected.
National Grid Electricity Transmission Plc	No	We do not anticipate any significant impacts or costs with regards to the Proposed Modification
E.ON UK	-	Regulatory uncertainty will be increased, with a consequent increase in time and costs to manage the risks and a negative impact on our ability to plan and invest with confidence.
Accenture	Yes	There will be procedural and process impact with
Services		minimal costs.
Limited (for and on behalf		
of		
ScottishPower)		

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Question 6: Do you support the Modification Group's preferred implementation approach?

Summary

Yes	No	Neutral/Other
7	0	0

Responses

Respondent	Response	Rationale
RWE npower	Yes	The Code needs to be changed to meet the deadline for the License changes to prevent the Licensee being in breach.
Scottish and Southern Energy	Yes	Noting the typo error on page 3, we agree with implementation on 31 st December 2010 (if the decision is received on or after 10 th December 2010) or 15 Working Days after an Authority decision if its received after 10 th December 2010.
Centrica	Yes	Impacts and costs as in Q5
EDF Energy	Yes	-
National Grid Electricity Transmission Plc	Yes	We support the Modification Group's preferred implementation approach
E.ON UK	Yes	-
Accenture Services Limited (for and on behalf of ScottishPower)	Yes	In view of the fact that Transmission Company has a 'best endeavours' licence obligation to implement the Code Governance Review BSC changes by 31 December 2010, ScottishPower agree that P262 should be implemented by that date or as soon as possible thereafter.

Question 7: Do you have any further comments on P262?

Responses

Respondent	Response	Rationale
RWE npower	No	-
Scottish and Southern Energy	Yes	We note the comments on page 9, under "Other Modifications raised post SCR Phase":-
		"Once the SCR Phase has finished, the SCR Phase Modification rules described above no longer apply."

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Respondent	Response	Rationale
		We concur with this. However, we observe that with 1-2 SCRs per year (and perhaps more in the first year) of up to 12 months duration that it may turn out, in practice, that there is an SCR ongoing most, if not all, of the time.
		We note the comments on page 11, under "Appeals Process":-
		"Participants have 15 Working Days in which to raise an appeal following the Panel decision. This time period includes the day of the Panel decision."
		We do not accept the second sentence, namely that the clock for the 15 Working Days starts on the day the Panel makes its decision. It seems to us intrinsically wrong to commence an appeal process, which is time limited, when affected BSC Parties have not been informed that the time period has commenced. In our view the 15 Working Days window for appeals can only commence on the day that BSC Parties are informed. Clearly if this is done on the day of the Panel then there is no difference. However, if there is a few days delay (perhaps because at the Panel meeting in question there were more pressing matters?) then BSC Parties will still have 15 Working Days, from notification, to submit an appeal.
Centrica	No	-
DF Energy	No	-
National Grid Electricity Transmission Plc	No	-
E.ON UK	Yes	We believe that the three separate issues of SCRs, Self governance and the CACoP would have been best handled through three separate BSC modifications as under the UNC and CUSC and was suggested at the Code Governance workshop 23/06/10. More fundamentally we are concerned at the way in which Elexon has characterised P262 and P263 in suggesting that Parties have little option but to support
		these proposals. For example in the high level summary of P262 Elexon states:
		"In July 2010 Ofgem directed that licence modifications
		be made to implement the Code Governance Review Final Proposals. In order to comply with the modified

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Respondent	Response	Rationale
		to reflect the new processes and policies coming into effect."
		It would seem more accurate to state:
		"In July 2010 Ofgem directed that licence modifications be made to implement their Code Governance Review Final Proposals. National Grid have proposed this change to the BSC modification procedures in order to seek to satisfy the new Transmission Licence conditions to which they agreed."
Accenture Services Limited (for	No	-
and on behalf of		
ScottishPower)		

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