

Reference: P217/Ofgem



10 January 2008

Mr Philip Davies
Director, GB Markets
Ofgem
9 Millbank
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Dear Mr Davies

Electricity cash-out modifications

Thank you for your letter of 20 December regarding the interaction between the forthcoming Assessment Procedure for Modification Proposal P217, and Pending Modifications 211 and 212 and the desirability of having any approved changes in place for winter 2008/2009. I have discussed the concerns you raise with the Modification Secretary, Chris Rowell, who will bring these to the attention of both the P217 Modification Group and the BSC Panel and discuss how the P217 Assessment process might be expedited. We are also discussing timescales with National Grid, which is significantly impacted by P217 and upon whom a large burden of the analysis necessary to inform the Assessment process will fall.

Following our discussions with the Modification Group and National Grid, we will appraise the January BSC Panel and seek their agreement to any proposed change to the timetable. Accelerating the timetable is likely to result in the need for extra resources to process the Modification. The Panel will also be asked to support any such expenditure.

The submission of a series of "competing" proposals, sometimes several months apart, is not unique to cash out. Where this has occurred, ELEXON has always sought to progress the proposals in an efficient, economic and expeditious manner. ELEXON continues to support the current suite of pricing changes, including any post P211/P212 work as well as P217 and the broad questions raised under Issue 30. As you recognise in your regulatory impact assessment on P211 and P212 the proposed solution in P217 is quite different. This means that there is limited scope to build on the earlier analysis and deliver comprehensive reports in abbreviated timescales although we, in conjunction with the Modification Group and Panel, will endeavour to expedite the process.

We recognise your concern about implementation timescales but before we can provide you with a definitive view, we need to understand the likely solution (and any potential Alternatives) and to present this to Parties, National Grid and the BSC Agents for their assessment. The necessary level of detail is only likely to emerge during the latter stages of the Assessment Procedure. Whilst every effort will be made to effect changes to central systems as expeditiously as possible, from a cost and efficiency perspective we are mindful also of the need to avoid implementing changes to both the existing operational systems and the new systems which are being procured under project ISIS. In making their recommendations the Modification Group and Panel will also need to consider the impact of system and commercial changes on BSC Parties.

Both ELEXON and the Panel share your concern over the inefficiencies and hence costs that could arise from having to implement changes to the same areas of both central and BSC

Parties' systems in close succession and have discussed this previously, most recently in the context of transmission losses proposals however, the Code, as presently drafted, does not preclude this.

I note that you have also invited industry views on these matters. I would be grateful if you could share any responses with ELEXON so that the Modification Group and the Panel can consider these when making their recommendations on P217 to you.

Whilst we are not aware that any Party proposes submitting a further proposal to change the pricing mechanism we know from previous experience that this cannot be precluded. Any such proposal may build upon recent work or could significantly differ from the current proposed solutions.

I will provide you with an update later this month once the Modification Group's and the Panel's views are known. In the meantime please do not hesitate to contact me if you require any further information.

Yours sincerely

Stuart Senior
Chief Executive