Modification proposal:	**Balancing and Settlement Code: "Changes to the Treatment of Long Term vacant site timescales" — P245**
Decision:	The Authority[1] directs that the Alternative Proposal be made[2]
Target audience:	National Grid Electricity Transmission Plc (NGET), Parties to the BSC and other interested parties
Date of publication:	15 March 2010 — Implementation Date: 31 March 2010

Background to the modification proposal

A Long Term Vacant Site is a site/meter point that is no longer being used and is treated as having zero consumption in settlement. The Balancing and Settlement Code (BSC)[3] sets out how Suppliers can determine whether a site for a domestic or small business premises consumer (Non Half Hourly Metering site) has become Long Term Vacant (LTV).

For a site to be LTV, one of the BSC's requirements is that a Supplier must receive at least two data flows from a site visit (or Non Half Hourly Data Collector) that confirms the site is unoccupied. The Supplier must receive this information "not less than three months and not more than seven months apart". This requirement was originally intended to allow Suppliers on both quarterly and six monthly read cycles to use their existing processes to identify unoccupied sites[4,5].

The P245 modification was raised by the BSC Panel on 26 November 2009 following a Technical Assurance check[6]. It highlighted that some Suppliers are receiving their data flows outside the three to seven month period. The Panel found that existing processes might mean that the quarterly reads occur at two and a half months in practice, which falls short of the three month minimum. In addition, the BSC Auditor identified that some Suppliers were unsure how to apply the calendar month timescales. This is because the number of calendar days in a month can vary.

This failure to classify some legitimate sites as LTV means that Suppliers' Estimated Annual Consumption (EAC) data is less accurate than possible[7]. This inaccuracy might affect Trading Charges.

P245 (Proposed and Alternative) seeks to improve the fit between the BSC requirements for identifying LTV sites and the Suppliers' read cycles. This should enhance the accuracy of EAC data. It does this by increasing the flexibility available to Suppliers for identifying such sites. It also adds greater clarity to the timescales by expressing them in calendar days rather than months. The Alternative modification also seeks to move the LTV timescale details into the code subsidiary document, BSCP5048. However, it is worth noting that for the initial introduction of LTV timescales, under Modification P196 in 2007,

[1] The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] Under Section S: Supplier Volume Allocation.
[4] See Modification P196.
[5] The period of seven months (as opposed to six months) was chosen in order to provide flexibility where a site is on a six month read cycle. However, the reading is not scheduled until a couple of weeks after six months since the last reading. This is due to the Data Collectors work order.
[6] Technical assurance checks are carried out by the Performance Assurance Board.
[7] An estimated rate of consumption, nominally expressed in kWh/Year, that is used in Settlement until an Annualised Advance is calculated.
[8] The requirement to have timescales around when a site can be treated as Long Term Vacant will still remain in the BSC.

the timescales were included directly in the BSC. It was felt that the Panel should have oversight over the timescales and that this would increase transparency for parties. P245's Alternative proposal essentially now seeks to reverse this decision.

The modification proposal

An Alternative Modification was proposed by the Modification group. Both proposals are summarised below.

Proposed Modification

Proposed Modification P245 seeks to revise the BSC to more accurately reflect Suppliers' read cycles. It amends the timescale requirements within the BSC to "not less than 75 calendar days and not more than 215 calendar days apart". In summary, P245 proposes:

- relaxing the lower end timescale from three months to two and a half months; and
- expressing the timescales in a way which clarifies the exact number of calendar days.

Alternative Modification

The Alternative Modification is identical to the Proposed Modification but also:

- moves the details of LTV timescale requirements from the BSC and places them in a Code Subsidiary Document[9] (BSCP504);
- expresses all LTV timescale requirements in 'calendar days' rather than 'months'[10]; and
- redrafts the wording of BSC Annex S-2 paragraph 4.3.20[11].

BSC Panel[12] recommendation

The Draft Modification Report was considered by the BSC Panel at its meeting on 11 February 2010. The Panel agreed that both the Proposed and Alternative Modifications better facilitated the applicable BSC objectives c) and d) when compared to the current arrangements. They further considered that the Alternative Modification would better facilitate the achievement of the relevant objectives than the Proposed Modification. The Panel unanimously recommended that the Alternative Modification should be approved.

[9] BSCP504 'Non Half Hourly data Collection for SVA Metering Systems Registered in SMRS'.
[10] There are other, related, LTV process timescales which are also currently expressed in "months" and would not be updated by the Proposed Modification. These include timescales for confirming that a site remains LTV and identification that a site no longer qualifies for LTV treatment.
[11] This paragraph describes the rules by which the closure date of a consumer's account can be used as the start date for an LTV site's zero EAC (Estimated Annual Consumption) value. The modification group noted that the current wording was ambiguous and that its clarity could be improved to better reflect its original intention.
[12] The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

Please see sections 7 and 8 of the Final Modification Report (FMR) for full details of their views[13].

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 12 February 2010. The Authority has considered and taken into account the responses to Elexon's[14] consultation which are attached to the FMR. The Authority has concluded that:

1. implementation of the Alternative Modification proposal will better facilitate the achievement of the relevant objectives of the BSC[15]; and

2. directing that the Alternative Modification be made is consistent with the Authority's principal objective and statutory duties[16].

Reasons for the Authority's decision

The Authority agrees with the Panel that both the Proposed Modification and the Alternative Modification better facilitate the relevant code objectives c) and d). We consider that the Alternative Modification better facilitates these applicable objectives compared to the Proposed Modification for the reasons set out below. Given this, we agree with the view of the Panel that the Alternative Modification proposal should be made.

Objective c) – "promoting effective competition in the generation and supply of electricity, and (as far as consistent therewith) promoting such competition in the sale and purchase of electricity"

We agree with the unanimous view of the Panel and respondents that the Proposed and Alternative Modifications may reduce the volume of potentially misallocated energy. This will allow market participants to better allocate energy in settlement at the earliest opportunity. It would also promote competition because the composition of a Supplier's portfolio, in terms of LTV sites, would have less influence on their ability to settle accurately. This may be especially prevalent for smaller suppliers who are likely to be more exposed to imbalance risk.

In our view, referring to all LTV timescales in calendar days removes ambiguity for interpretation and should allow all market participants, including smaller players and new entrants, to compete more effectively. Given this, the Alternative proposal may go further than the Proposed towards increasing competition. This is in the interests of consumers. This view was also shared by the majority of respondents who agreed that in this respect, the Alternative Modification provides a more complete and consistent solution.

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[13] BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.com
[14] The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.
[15] As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151
[16] The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

For these reasons we therefore consider that the Alternative Modification will help to better facilitate Applicable Objective (c).

Objective d) - "promoting efficiency in the implementation and administration of the balancing and settlement arrangements"

Ofgem agrees that allowing Suppliers to classify sites as LTV more accurately will promote efficiency. However, we note that one Panel member questioned whether, in the context of the Alternative Proposal, it was appropriate to move the LTV timescale details from the BSC to BSCP504. They highlighted that one of the reasons for originally including the timescales in the BSC was so that the Panel could have oversight. Also, the timescales were more transparent in the main code.

The majority of other Panel members disagreed, believing the BSCP504 to be a more appropriate place given the approval and referral processes offered by a Change Proposal (CP). They pointed out that a CP needs unanimous approval from the Supplier Volume Allocation Group (SVG) to be implemented. Otherwise it would be referred to the Panel for decision. The SVG consists of a broad and diverse range of industry experts. Application for membership is open to any representative of a signatory to the BSC. The Panel also provides a representative to the SVG and receive reports on all SVG meetings. It was also emphasised that the LTV process is voluntary. Suppliers who are unhappy with the process do not have to use it. Overall, the Panel was reassured that they would have sufficient oversight of any potential changes to the LTV timescales once moved to BSCP504.

In response to consultation, respondents cited similar arguments in favour of moving the LTV timescales to BSCP504. No respondents raised any concern with respect to this issue.

We have also carefully considered whether it is appropriate to move the LTV timescale details from the BSC to BSCP504. For the reasons examined above, Ofgem is satisfied that there are sufficient processes in place under CP to ensure oversight of any future changes. We also note that any changes to BSCP504 will still require industry consultation.

The estimated implementation costs for both proposals are very low. We believe that these costs will be offset in time by the longer term benefits in terms of efficiency and balancing arrangements.

In addition, there may also be some initial minor cost saving benefits. For example, using data provided by a Supplier, the industry has estimated that the total potential Supplier benefit, in terms of a reduction to imbalance exposure, stands at between 7,859MWh – 13,099MWh within the first year of implementation[17]. There may also be cost savings, under both the Proposed and Alternative Modifications, for Suppliers that do not have to conduct additional site visits. The Modification Group noted that the cost of a single site visit was approximately £8. The group identified the potential number of sites that may be initially excluded from the LTV process. They calculated the costs of additional site visits and worked out potential cost savings across the market of between £43,200 and £72,000 within the first year of implementation[18].

We have carefully weighed up both the Proposed and Alternative Modifications both in terms of the costs and benefits and arguments put forward by respondents. In particular, we note that moving the LTV timescale details from the BSC to BSCP504

[17] See section 3 of the FMR.
[18] See section 3 of the FMR.

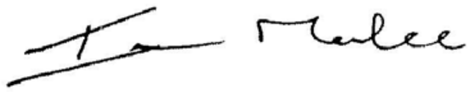
provides a quicker mechanism that requires fewer resources for changing LTV site timescales in the future. For the reasons outlined above, we believe that when compared to the Proposed, the Alternative improves the efficiency in the administration of this part of the BSC arrangements. This is likely to be a benefit for all industry participants.

Further Issues

We welcome the efforts of the Panel and the Modification Group to quantify the benefits of this modification. We recognise the concerns expressed by some parties about the difficulty of identifying this information. However, we note that the quantitative analysis provided in the FMR sets out that the financial benefits will outweigh the costs of both the Proposed and the Alternative proposal. As set out above, we consider on balance that the Alternative Modification will provide most benefit for the industry and consumers.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority, hereby directs that modification proposal BSC P245:"Changes to the Treatment of Long Term vacant site timescales" be made.



Ian Marlee
Partner, Trading Arrangements

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