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26 May 2006

Proposed new Balancing and Settlement Code modification P198 'Introduction of a Zonal Transmission Losses Scheme'

The Balancing and Settlement Code ("BSC") Panel has asked Ofgem to confirm whether the Authority intends to undertake an impact assessment in accordance with section 5A of the Utilities Act 2000 (the "UA") in respect of BSC Modification Proposal P198 'Introduction of a Zonal Transmission Losses Scheme'.

This letter is to confirm that Ofgem considers Modification Proposal P198 (as currently drafted) to be "important" for the purposes of section 5A of the UA. Where section 5A of the UA applies, the Authority must either undertake an impact assessment or publish a statement setting out reasons why the Authority thinks it is unnecessary for it to carry out such an assessment. Section 5A of the UA does not apply if the urgency of the matter makes it impracticable or inappropriate for the Authority to comply with the requirements of that section.

On the basis of the information we have available to us currently, we anticipate that the Authority will undertake an impact assessment before it makes a decision on Modification Proposal P198. It would, therefore, be prudent for the BSC Panel and the P198 Modification Group, in considering and setting proposed implementation timescales, to assume that the Authority will undertake an impact assessment in respect of Modification Proposal P198.

A handwritten signature in black ink, appearing to read "C Sausman", with a long, sweeping underline.

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Ofgem

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