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Dear Stuart

Balancing and Settlement Code (“BSC”) modification proposals on zonal transmission losses - review of Oxera’s analysis

I am writing to you further to my letters of 12 December 2007¹ and 9 January 2008 which set out a number of questions compiled by the consultants that Ofgem has appointed (the Brattle Group (“Brattle”)) to undertake the review of Oxera’s analysis² on the BSC zonal transmission losses modification proposals³.

We have now received Oxera’s responses to those questions. Brattle have identified a further issue on which they would like information from Oxera.

We would be grateful for clarification on exactly how Oxera calculated the net benefits associated with zonal losses. Brattle have provided the attached spreadsheet setting out an example of despatch under uniform and zonal losses. They have calculated:

- 1) the cost benefit – i.e. the overall reduction in generating costs required to meet demand (net of losses);
- 2) the change in generator profits;
- 3) benefits calculated according to the way Brattle understand Oxera’s methodology.

It would appear from this example that Oxera’s method gives benefits which do not match the change in generator profits or the change in costs. It is therefore not clear exactly what benefits Oxera are calculating.

We would be grateful if you could ask Oxera to explain in more detail how they calculated the benefits, and to illustrate their methodology on the attached spreadsheet example.

I would be grateful if you could provide a response, as provided for under BSC Section C3.6, by 29 January 2008.

Yours sincerely

Lesley Nugent
Senior Manager, Networks

¹ http://www.ofgem.gov.uk/Licensing/ElecCodes/BSCCode/Ias/Documents1/071212_Questions_for_Oxera.pdf

² Ofgem set out its intention to undertake this review in the following open letter: “The Authority’s decisions on the zonal transmission losses proposals”, 14 September 2007, ref 223/07 (www.ofgem.gov.uk)

³ P198, P198 Alternative, P200, P200 Alternative, P203 and P204.