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National Grid Electricity Transmission plc,
BSC Signatories and Other Interested Parties

7 December 2005

Our Ref: MP No P191

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and notice in relation to Modification Proposal P191 “Revised definition of Balancing Mechanism Unit to include Power Park Module”

The Gas and Electricity Markets Authority (the “Authority”)¹ has considered the issues raised in the Modification Report² in respect of Modification Proposal P191, “Revised definition of Balancing Mechanism Unit to include Power Park Module”.

The BSC Panel (the “Panel”) recommended to the Authority that the Proposed Modification should be approved.

Having considered the Modification Report and the Panel’s recommendation and having regard to the Applicable BSC Objectives³ and the Authority’s wider statutory duties,⁴ the Authority has decided to direct a modification to the BSC in line with the Proposed Modification.

This letter explains the background and sets out the Authority’s reasons for its decision.

¹ Ofgem is the office of the Authority. The terms “Ofgem” and “the Authority” are used interchangeably in this letter.

² ELEXON document reference P191MR10, Version No. 1.0, dated 14 November 2005.

³ The Applicable BSC Objectives, as contained in Standard Condition C3 (3) of NGC’s Transmission Licence, are:

- a) the efficient discharge by the licensee of the obligations imposed upon it by this licence;
- b) the efficient, economic and co-ordinated operation of the GB transmission system;
- c) promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity; and
- d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

⁴ Ofgem’s statutory duties are wider than the matters that the Panel must take into consideration and are detailed primarily in the Electricity Act 1989 as amended, including by the Enterprise Act 2002; the Energy Act 2004; the Transitional Provisions; and the Utilities Act 2000.

This letter constitutes notice by the Authority under section 49A Electricity Act 1989 in relation to the direction.

Background

The BSC currently states that a single Balancing Mechanism Unit ("BM Unit") may be comprised of any Generating Unit or Combined Cycle Gas Turbine ("CCGT") Module that has one or more Metering Systems whose exports are registered in the Central Meter Registration Service ("CMRS"). For example, an individual wind turbine on a directly connected wind farm would qualify as a BM Unit and thus be subject to all procedures associated with BM Units.

Parties can apply for non-standard BM Unit configuration(s), however the process of applying for this entails the Panel making a determination on the proposed configuration, taking into account any representations made by the relevant Party; the electrical configuration of the proposed BM Unit; and the opinions of the Transmission Company.

In order to simplify the current BM Unit application process for PPMs, RWE npower submitted Modification Proposal P191, "Revised definition of Balancing Mechanism Unit to include Power Park Module" on 25 July 2005.

The Modification Proposal

Modification Proposal P191 seeks to modify the BSC so as to allow a single BM Unit to be comprised of a Power Park Module ("PPM"). Power Park Module is a term defined under the Grid Code as follows:

'A collection of Non-synchronous Generating Units (registered as a Power Park Module under the Planning Code) that are powered by an Intermittent Power Source, joined together by a system with a single electrical point of connection to the GB Transmission System (or User System if Embedded). The connection to the GB Transmission System (or User System if Embedded) may include a Direct Current Converter.'

This definition captures groups of wind, wave and solar generating units. In practice, a wind, wave or solar farm could comprise one or multiple PPMs dependent on its connection configuration to the Transmission System.

The Proposer believes that allowing a PPM to be registered as a single BM Unit without the need to go through the non-standard BM Unit determination process would simplify current administrative arrangements in this area. It is contended that this would reduce barriers to new entrants and the administrative burden of the trading arrangements, thereby better facilitating the achievement of Applicable BSC Objectives (c) and (d).

The Panel considered the Initial Written Assessment at its meeting of 11 August 2005 and agreed to submit Modification Proposal P191 to the Assessment Procedure. The Modification Group (the "Group") met twice to consider P191, conducted one industry consultation and commissioned analysis from the Transmission Company.

The Assessment Report was submitted to the Panel on 13 October 2005, where it was agreed that P191 should proceed to the Report Phase with the recommendation that it be approved.

Respondents' views

ELEXON published a draft Modification Report on 17 October 2005, which invited respondents' views by 28 October 2005. Seven responses were received, representing 40 Parties and no non-Parties). Two of these responses were from Distribution Network Operators. All responses expressed support for the Proposed Modification.

Responses shared a common theme of perceiving that P191 would result in more streamlined processes by which Power Park Modules could register as BM Units, simultaneously resulting in the better facilitation of Applicable BSC Objective (c) by reducing barriers to entry, and (d) by reducing costs of administering the balancing and settlement arrangements.

The respondents' views are summarised in the Modification Report for Modification Proposal P191, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 10 November 2005 and considered the Modification Proposal, the draft Modification Report and the consultation responses received.

The Panel recommended that the Authority should approve the Proposed Modification and that, if approved, the Proposed Modification should be implemented 10 Working Days after an Authority decision.

Ofgem's view

Having considered the Modification Report and the Panel's recommendation, Ofgem considers, having regard to the Applicable BSC Objectives and its statutory duties, that the Proposed Modification will better facilitate achievement of Applicable BSC Objectives, (c) and (d).

Applicable BSC Objective (d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements

Currently a PPM that wishes to register as a single BM Unit must go through a process of applying to the Panel⁵ for treatment as a non-standard BM Unit. This process requires liaison between the Party and ELEXON to prepare the case for consideration, as well as mandatory consultation with the Transmission Company before a decision may be made.

This process carries an administrative overhead that would be likely to grow over time as more PPMs are commissioned. Group analysis based on Transmission Company connection offers suggests that as many as 140 wind farms may be registered as PPMs within the next five years.

⁵ In practice, the Panel has delegated this responsibility to the Imbalance Settlement Group (ISG).

The assessment of P191 forecasts that two ELEXON man days per application could be saved if these PPMs could be treated as standard BM Units. Ofgem agrees with the Panel conclusion that P191 would result in a significant reduction in ELEXON overhead for processing the resulting BM Units.

These cost savings alone would not demonstrate the better facilitation of Applicable BSC Objective (d) if there were value in the existing processes that cause these costs, but Ofgem concludes that this is not the case. P191 has highlighted that both the Panel and the Transmission Company support the concept that PPMs may be automatically registered as single BM Units. Given that the determination on non-standard BM Unit configuration is made by the former, following consultation with the latter, there would not appear to be significant value in retaining the current requirement that PPMs should go through the more laborious non-standard application route when the outcome of this may be considered foregone.

P191 would significantly reduce the central administrative burden on ELEXON and the relevant Panel Committee in processing non-standard BM Unit applications. In doing so, Ofgem considers that a reasonable case has been made to suggest that efficiency in the administration and implementation of the balancing and settlement arrangements would be achieved were P191 approved, therefore concluding that Applicable BSC Objective (d) would be better facilitated.

Applicable BSC Objective (c) – promoting effective competition in the generation and supply

One respondent to the Assessment Procedure expressed concern that P191 would be to the detriment of (c), suggesting that it would give PPMs an unfair advantage over other generators by being able to self-balance below the Boundary Point, and submit aggregated data to the Transmission Company.

Ofgem disagrees with this assertion. As highlighted in the Modification Report, CCGT Modules, which by definition comprise multiple Generating Units, are already allowed to automatically form single BM Units without the need to go through the non-standard application route. P191 would allow CCGT Modules and PPMs to register as single BM Units on the same terms.

Ofgem further concurs with the Group and Panel that the theoretical ability to conduct self balancing actions below the Boundary Point is unlikely to be a significant advantage for PPMs given the intermittent energy sources for these technologies.

More generally, it should be noted that P191 does not change the principle of whether or not PPMs may form single BM Units – they already can via the non-standard BM Unit registration route. Ofgem considers that P191 would simply reduce the administrative burden on PPMs applying for treatment as single BM Units. In doing so, Ofgem concludes that a barrier to entry for intermittent technologies will be reduced and therefore this is likely to promote competition in generation.

Other Applicable BSC Objectives and wider statutory duties

The same respondent to the Assessment Procedure consultation also expressed concern that P191 would be to the detriment of Applicable BSC Objective (b), the efficient, economic and co-ordinated operation of the GB transmission system. This respondent considered that P191

would reduce the amount of information available to the Transmission Company on the behaviour of subsets of Generating Units within a PPM, and remove its ability to control these subsets. It is contended that this could make system operation and balancing more difficult.

Ofgem notes that the Transmission Company did not share this view, advising the Group that the internal network and size of PPMs did not concern it as long as the connection was in compliance with the Grid Code. Ofgem further notes that the Grid Code requires the operator of a PPM to submit data about intended operation in a matrix format that provides the Transmission Company with the level of data it requires for operation of the transmission system. Ofgem concurs with the Panel conclusion that P191 would have no material impact on Applicable BSC Objective (b), either positive or negative.

Ofgem has statutory obligations to contribute to the achievement of sustainable development and to secure a diverse and viable long-term energy supply⁶. P191 will make a contribution to both by making it easier for wind, wave and solar technologies to enter the marketplace. More broadly, P191 is also consistent with statutory obligations to promote effective competition, and efficiency and economy on the part of licence holders, for the reasons previously outlined against Applicable BSC Objectives (d) and (c): removing inefficiencies resulting from an unnecessarily bureaucratic process; with consequent reduction in barriers to entry. Ofgem concludes that aside from better facilitating achievement of the Applicable BSC Objectives, a decision to approve P191 is also consistent with its wider statutory duties.

If you would like to discuss any aspects of this letter, please contact Richard Hall on 020 7901 7335.

Yours sincerely,

Nick Simpson

Director, Modifications

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

⁶ Pursuant to section 3A of Part 1 of the Electricity Act 1989 as amended, including by the Enterprise Act 2002; the Energy Act 2004; the Transitional Provisions; and the Utilities Act 2000.