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Our Ref:MP No P153

The National Grid Company, BSC Signatories and
Other Interested Parties

Dear Colleague,

Modification to the Balancing and Settlement Code (BSC) - Decision and notice in relation to Modification Proposal P153: "Additional Requirements to Support Competition in New and 'Out-of-Area' Distribution Networks"

The Gas and Electricity Markets Authority (the Authority)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P153, "Additional Requirements to Support Competition in New and 'Out-of-Area' Distribution Networks".

The BSC Panel (the Panel) recommended to the Authority that the Proposed Modification P153 should not be made. In this instance no legal text has been provided and no Implementation Date has been suggested.

Having carefully 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 not to direct a Modification to the Balancing and Settlement Code (BSC).

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

¹ Ofgem is the notice of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² ELEXON document reference P153MR, Version No. 1.0 dated 19 January 2004.

³ The Applicable BSC Objectives, as contained in Standard Condition C3 (3) of NGCs 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 by the licensee of the licensee's 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;
- d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements;
- e) the undertaking of work by BSCCo (as defined in the BSC) which is:
 - (i) necessary for the timely and effective implementation of the proposed British Electricity Trading and Transmission Arrangements and
 - (ii) relevant to the proposed GB wide balancing and settlement code;and does not prevent BSCCo performing its other functions under the BSC in accordance with its objectives.

⁴ Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and include amongst other things a duty to have regard to social and environmental guidance provided to Ofgem by the government.

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

Background

The Utilities Act 2000 amended Section 6 of the Electricity Act 1989 to introduce distribution as a licensable activity, separate from supply, and facilitates the introduction of competition in the distribution of electricity. The legislation enables persons other than the host Licensed Distribution System Operator (LDSO) to obtain a distribution licence and existing LDSOs to operate licensed networks outside of their distribution services area.⁵

On 1 August 2003, P62 "Changes to Facilitate Competitive Supply on the Networks of New Licensed Distributors" (P62) was implemented. Amongst other things, P62 allows for multiple LDSOs to operate within each of the existing Grid 5 Supply Point Groups (G5P Groups).

Npower believes that several issues arise from the implementation of P62, especially the lack of a process for the migration of Supplier Volume Allocation (SVA) Metering Systems between LDSOs (the transfer of Metering Systems). In particular, Npower's concerns relate to the transfer of Metering Systems from the interim registration arrangements to P62 compliant registration but could also apply if LDSOs were to otherwise transfer assets. Under the interim 'fostering' arrangement, the host LDSO fulfilled all the settlement and registration obligations on behalf of the new embedded LDSO.

Npower claims that the lack of a properly defined process could result in market participants using different and possibly incompatible processes, with the risk that the transfer of Metering Systems would not work.

In order to rectify this situation, npower submitted Modification Proposal P153, "Additional Requirements to Support Competition in New and 'Out-of-Area' Distribution Networks" on 1 December 2003.

At the Supplier Volume Allocation Group (SVG) meeting on 2 December 2003, the SVG considered the need to establish additional requirements regarding the migration of Metering Systems under Approved Modification P62. A Change Proposal (CP1026 "Issues associated with the registration of Metering Systems on existing Mew Distribution Networks and transfer to P62 complaint arrangements") had already been raised on this issue and the SVG concluded that:

- a Code Modification was unnecessary;
- the draft CP1026, should be progressed;
- providing additional information on the P62 process for the transfer of Metering Systems would be beneficial;

⁵ "Distribution services area - A Distribution Services Direction specifies or describes a distribution services area within which the licensee shall be obliged to comply with any requirements of Section C of their licence. Section C sets out the Distribution Service Obligation.

- the information required is a definition of the P62 process for the transfer of Metering Systems;
- specifying this information would not subvert the provisions of the Code, nor impose additional material obligations or restrictions (Section F3.1.2);⁶
- the required information would most appropriately be defined in Code Subsidiary Documentation (e.g. defining a new Supplier Meter Registration Service (SMRS) to SMRS Migration Process in the relevant BSCP); and
- the information should, where at all possible, be added by amending existing Code Subsidiary Documents.

The Initial Written Assessment (1WA) for Modification Proposal P1 53 was presented to the Panel on 11 December 2003. The Panel agreed that no Code Modification was required as the issue could be resolved via the CP process. The Panel submitted Modification Proposal P153 directly to the Report Phase with a recommendation to reject.

The Modification Proposal

Modification Proposal P153 seeks to modify the BSC so as to provide a process for the migration of Supplier Volume Allocation (SVA) Metering Systems between LDSOs. The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective C(3) (c) and (d).

The Modification Proposal identified several issues associated with transferral of Metering Systems it believes are problematic:

- it requires the creation of new SVA Metering Systems in the new SMRS and termination of the old ones in the old SMRS (referred to as a 'Virtual Disconnection and Reconnection process'), which could give rise to confusion for customers, possible erroneous registrations and the potential risk of the meters not being taken into Settlement or double counted;
- the existing processes for Disconnection and Reconnection rely on 'physical initiating events' i.e. actual energisation or de-energisation, which will not occur in this instance;
- the responsibilities for the transfer process (as between SMRSs) are unclear;
- the necessary data flows to support an associated Change of Supplier and/or Change of Agent(s), which might well need to be supported if there was a coincident Change of Tenancy are not provided in a transfer process; and

The Panel can modify and create or remove Code Subsidiary Documents. Any actions by the Panel can only be taken if the modified or additional Code Subsidiary Document is consistent with and does not impair the BSC and does not impose new obligations or restrictions of a material nature on parties or Party Agents which are not envisaged under the subsidiary to the rights and obligations of parties under the BSC

- Import/Export sites and Related Metering Point Administration Numbers (MPANs) are not dealt with adequately in a transfer process.

The Modification Proposal suggests that a role of 'Transfer Coordinator' is required, as has been used in the past, and suggests that BSCCo is a suitable candidate for this function. Information was not provided on the exact nature of this role.

In addition, the Modification Proposal suggests that if the changes required to introduce a process for the transfer of Metering System were too complex, then a modified form of the 'fostering' type arrangements used as an interim measure for customers on new networks prior to P62 implementation could be used as an enduring solution.

Responses to ELEXON Consultation

ELEXON published a draft Modification Report on 17 December 2003, which invited respondents' views by 5 January 2003. Seven responses were received. The seven respondents (representing 25 Parties and one non-Party) unanimously agreed with the Panel's provisional recommendation to the Authority that Modification Proposal P1 53 should not be approved.

The majority of respondents commented that since the Code does not require modification, as CP1026 has been raised and the issue is being considered by industry, it was felt that Modification Proposal P153 was not the most appropriate way of delivering the changes required.

One respondent commented that it did not feel that the role of transfer co-ordinator, as suggested by the Modification Proposal P153 would resolve the difficulties outlined or facilitate the process.

One respondent added a further comment that the Migration Issues Working Group ("MIWG") was set up to look into this area and that it would seem appropriate that any solution developed by this working group and CP1026 should be compatible with one another.

The respondents' views are summarised in the Modification Report for Modification Proposal P153, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 11 December 2003 and considered Modification Proposal P153, the draft Modification Report, the views of the Group and the consultation responses received.

The Panel recommended that the Authority should reject the Modification Proposal. The Panel did not provide a legal text or an implementation date.

Responses to Ofgem GB Consultation

On 5 December 2003 Ofgem undertook to invite responses on additional implications that a Proposed Modification may have, were it to be applied on a GB wide basis, as opposed to being limited to England and Wales. Ofgem published a GB Consultation Paper on 7 December 2004 which invited respondents' views by 3 February 2004. No responses were received to this consultation.

The Consultation Paper and other related documents can be found on the *BETTA GB Consultation* section of the Ofgem website.

Ofgem's view

Having carefully considered the Modification Report and the Panel's recommendation, Ofgem considers, having regard to the Applicable BSC Objectives and its statutory duties, that Proposed Modification P153 would not better facilitate achievement of Applicable BSC Objective(s) (c) and (d).

Npower believes that one of the issues arising from the implementation of P62, is the lack of provision of a robust process for the transfer of Metering Systems from registration under interim registration arrangements to P62 compliant registration.

In spring 2004 Scottish and Southern Energy ("SSE") successfully transferred ownership of their Metering Systems (less than 200) associated with Newcastle Great Park ("NGP") in order to meet P62 compliance. In the case of MGP, prior to P62, Metering Systems 'owned' by SSE were temporarily registered in the SMRS of Northern Electric ("NEDL") under a special interim arrangement. Following P62, SSE were required to transfer the NGP MSIDs from the NEDL to the SSE SMRS.

Ofgem considers that the need for the provision of a process for the transfer of Metering Systems from registration under interim registration arrangements to P62 compliant registration no longer exists. Ofgem notes that the transfer of ownership for NGP was a unique case. As there are no other fostering arrangements that are known of, it is not anticipated that such an event will occur again.

In their response to the draft Modification Report the majority of respondents commented that a modification was not required to address a fault with the Code. They also noted that a change proposal, CP1026, has been raised and any required amendments to account for the transfer of Metering Systems should only impact on the Code Subsidiary Documents.

Ofgem agrees with the view of respondents and the SVG that the Code is not deficient such that a modification is required to facilitate a robust transfer of Metering Systems between SMRSs. Ofgem considers that, based on the Modification Proposal before it, it is not clear that the introduction of a transfer of Metering Systems process to the Code would better facilitate achievement of Applicable BSC Objectives (c) and (d). The Modification Proposal may place unnecessary restrictions on the ability of market participants to amend the transfer process

(which, while being a clear and certain process, should be flexible and adaptable to changing circumstances) in the future and therefore would not promote efficiency in the implementation and administration of the balancing and settlement arrangements (BSC objective (d)).

Ofgem also concurs that a change to Code Subsidiary Documents is the most appropriate way of delivering any required changes.

Ofgem notes that a formal Change Proposal CP1026 has been raised with the aim of modifying BSCP515 "Licensed Distribution" ("BSCP515"), formalising the Settlement requirements of an asset transfer and describing the end-to-end process in full.

Ofgem agrees with the view of one respondent to the draft Modification Report who noted that the MIWG was set up to look into this area and that it would seem appropriate that its solution and CP1026 should be compatible with one another. MIWG has been established to; review and document the key impacts in relation to a transfer of customer metering points, especially with regard to identifying which network the customer was on, how they would be moved between registration systems and data continuity requirements. Elexon are working in conjunction with the MIWG on the development of CP1026 and the resolution of the inter-operational issues of an asset transfer between distribution businesses.

Therefore, the Authority agrees with the Panel's recommendation that Modification Proposal P153 should not be made.

Yours sincerely,



Nigel Nash
Head of Market Infrastructure, Markets
Signed on behalf of the Authority and authorised for that purpose by the Authority