



Direct Dial: 020-7901 7435

29 August 2003

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P130

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Direction in relation to Modification Proposal P130: “Clarification of the treatment of Non Half Hourly Export Consumption within PARMS performance Serial 1”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P130, “Clarification of the treatment of Non Half Hourly Export Consumption within PARMS performance Serial 1”.

The BSC Panel (the “Panel”) recommended to the Authority that Modification Proposal P130 should be made with an Implementation Date of 20 January 2004, should the Authority determination be received by 1 September 2003.

Having considered the Modification Report and the Panel’s recommendation and having regard to the Applicable BSC Objectives and the Authority’s wider statutory duties³, the Authority has decided to direct a Modification to the BSC.

This letter explains the background and sets out the Authority’s reasons for its decision. In addition, the letter contains a direction to The National Grid Company plc (“NGC”) to modify the Balancing and Settlement Code (“BSC”) in line with Modification Proposal P130, as set out in the Modification Report.

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

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

² ELEXON document reference P130MR, Version No. 1.0, dated 16 July 2003

³ 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.

Background

Annex S-1 of the BSC defines certain areas for the measurement of the performance of Suppliers and their agents. These areas are called Serials. Each Serial has one or more levels of performance ("Standards") that a Supplier is required to reach. Serials cover the quality of the data entering Settlement - including areas such as provision of consumption data for Non Half-Hourly and Half Hourly meters, installation of Half Hourly meters where required, etc - and the provision of information to ELEXON for reporting and monitoring. Where a Supplier hub is not performing to the required Standard, that Supplier is liable to pay Supplier Charges ("SCs"). SCs are calculated by the Performance Assurance Reporting and Monitoring System ("PARMS").

On 17 December 2002, the Authority directed the licensee to make Alternative Modification Proposal P81, "Removal of the Requirement for Half Hourly Metering on Third Party Generators at Domestic Premises". This Proposal relaxed the then-existing BSC requirements so that Exports from domestic premises could be taken into account in Settlement without Half Hourly Metering Equipment being installed. However, it has since been noted that the treatment of Non Half Hourly ("NHH") Export Consumption in PARMS Serial 1 is unclear, ie whether NHH Export Consumption should be added or subtracted from the NHH Import Consumption for the purpose of determining the amount of energy settled on the basis of estimates. If this were not to be clarified, it could create a perverse incentive on Suppliers not to process meter advances for Export metering systems, because Export Estimated Annual Consumption ("EAC") values would artificially increase the percentage of energy settled on Annualised Advance, through being netted off from Import EAC values. Therefore, as a result of the implementation of Modification Proposal P81, there is a requirement to clarify the treatment of NHH Export energy in the PARMS Serials.

TXU Direct Sales Limited raised Modification Proposal P130 on 2 June 2003 to address this perceived ambiguity.

The Modification Proposal

Modification Proposal P130 seeks to modify the BSC so as to clarify that NHH Export Consumption should be added to NHH Import Consumption for the purposes of PARMS Serial 1. The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective⁴ C3 (3) (c). The Proposer believes that it would incentivise Suppliers to enter as much accurate data as possible into the Settlement process, therefore increasing accuracy of Settlements and so improving the accuracy of charges passed onto Suppliers.

⁴ 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 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 (BETTA); 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.

The Panel considered the Initial Written Assessment at its meeting of 12 June 2003 and agreed with the ELEXON's recommendation that P130 should be sent directly to the Report Phase on the basis that it was self evident that the proposed change would better facilitate achievement of the Applicable BSC Objectives. ELEXON prepared a draft Modification Report on the basis of the Panel's provisional recommendations and issued that report along with the draft legal text for consultation on 20 June 2003.

ELEXON published a draft Modification Report on 4 July 2003, which invited respondents' views by 10 July 2003.

Respondents' views

ELEXON received nine responses (representing 44 Parties and 1 non Party) to the consultation on Modification Proposal P130. Seven of the nine responses supported the Panel's provisional recommendation that P130 should be made. These responses were of the opinion that an ambiguity exists, that such an ambiguity has the potential to place a perverse incentive on Suppliers and that the ambiguity should be removed from the BSC.

One respondent disagreed with the Panel's provisional recommendations on the basis that the draft legal text provided would not remove the ambiguity as desired. ELEXON addressed the defect identified in the legal text by this respondent, who subsequently withdrew its opposition to P130 as a consequence. The other respondent who did not express support for the Proposal gave a "No comment" response.

Six of the nine respondents indicated that they agreed that the draft legal text provided would correctly address the defect identified in P130. One respondent expressed the concern that the text did not take into account changes to the same area of the BSC to be implemented on the same day to give effect to Approved Modification P99. ELEXON agreed that a minor change was required and the appropriate amendment was made. One respondent considered that for the avoidance of doubt, the legal text should specify that the "absolute values" of NHH Export Consumption should be summed. ELEXON did not agree that such a change was required as NHH Export Consumption and NHH Import Consumption values have the same sign, and it would change the way in which negative meter advances created for the purposes of error correction were handled under PARMS Serial 1. One respondent expressed no opinion on the draft legal text.

Six of the nine respondents supported the Implementation Date for Modification Proposal P130 and two indicated that they were not supportive of the Implementation Date. One considered that the Implementation Date should be in line with the date the Approved Modification P81 changes take effect (28 September 2003), while another withdrew its objection following the changes to the text to take Approved Modification P99 into account. One respondent expressed no opinion on the proposed Implementation Date.

The respondents' views are summarised in the Modification Report for Modification Proposal P130, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 12 June 2003 and considered the Modification Proposal P130, the draft Modification Report and the consultation responses received.

The Panel agreed that the implementation of Modification Proposal P130 would better facilitate achievement of Applicable Objective (c) in that the ambiguity present in the BSC serves no purpose, that it renders the treatment of NHH Export Consumption unclear for the purposes of PARMS Serial 1 and that its removal would increase the probability that accurate charges are levied on Suppliers for breach of data quality standards.

The Panel recommended that the Authority should approve the Proposed Modification and that, if approved, the Modification Proposal should be implemented with an Implementation Date of 20 January 2004, if an Authority determination is received by 1 September 2003.

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 P130 will better facilitate achievement of the Applicable BSC Objectives.

Ofgem considers that the manner by which NHH Export Consumption is treated requires clarification in order to prevent the creation of perverse incentives on Suppliers with regards the processing of Export metering system advances. Furthermore, it is Ofgem's view that the clarification proposed maintains the intent of PARMS Serial 1 and the related SCs, in that it incentivises Suppliers to take meter reads for NHH Export meters and report these in a timely manner. The appropriate allocation of costs to those Parties that cause them through the SCs mechanism promotes competition in the electricity supply market, thereby better facilitating achievement of Applicable BSC Objective (c).

Ofgem notes the view of the respondent who considered that the Modification Proposal should take effect coincident with the Implementation Date for Approved Modification P81. Whereas in principle, this is correct, given that the Modification is to be implemented through changes to the Supplier Volume Allocation ("SVA") system, the proposed Implementation Date represents the earliest opportunity by which change can be incorporated as part of a standard system release. Given the low materiality of the potential effects on SCs against the substantial costs of either an interim SVA upgrade or a manual workaround, Ofgem considers that the proposed Implementation Date represents a pragmatic and cost effective solution.

The Authority's decision

The Authority has therefore decided to direct that the Proposed Modification P130, as set out in the Modification Report, should be made and implemented.

Direction under Condition C3 (5) (a) of NGC's Transmission Licence

Having regard to the above, the Authority, in accordance with Condition C3 (5) (a) of the licence to transmit electricity granted to NGC under Section 6 of the Electricity Act 1989 as amended (the "Transmission Licence"), hereby directs NGC to modify the BSC as set out in the Modification Report.

The Implementation Date for Modification Proposal P130 is 20 January 2004.

In accordance with Condition C3 (5) (b) of NGC's Transmission Licence, NGC shall modify the BSC in accordance with this direction of the Authority.

If you have any questions, please contact me on the above number.

A handwritten signature in black ink, appearing to read 'DEU', written in a cursive style.

Yours sincerely,

David Edward

Head of Electricity Code Development

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