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18 July 2003

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P126

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Direction in relation to Modification Proposal P126: “Housekeeping Modification”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P126, “Housekeeping Modification”.

The BSC Panel (the “Panel”) recommended to the Authority that Modification Proposal P126 should be made and that the Implementation Date should be 15 Business Days after the Authority's decision.

Having carefully 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 in line with the Modification Proposal P126.

This letter explains the background and sets out the Authority's reasons for its decision. In addition, the letter contains a direction to National Grid Company plc (“NGC”) to modify the BSC in line with Modification Proposal P126, as set out in the Modification Report.

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

Background

A number of minor inconsistencies, typographical errors and omissions have been identified within the Balancing and Settlement Code. It was the view of the BSC Panel that if these errors,

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

² ELEXON document reference P126RR, Version No. 1.0, dated 16 June 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.

inconsistencies and omissions were not rectified then it may lead to misunderstandings and confusion which in turn could potentially impact a Party's understanding of the operation of the Code.

In order to rectify this situation, BSCCo submitted Modification Proposal P126, "Housekeeping Modification" on 15 April 2003, on behalf of the Panel.

The Modification Proposal

Modification Proposal P126 represents a consolidation of the various housekeeping changes that are required to rectify the above noted defects. The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective⁴ C3 (3) (d).

The Panel considered the Initial Written Assessment at its meeting of 8 May 2003 and agreed to submit Modification Proposal P126 directly to the Report Phase in accordance with F2.2.4 of the BSC, as the Modification Proposal was deemed to be of a minor or inconsequential nature.

ELEXON published a draft Modification Report on 19 May 2003, which invited respondents' views by 30 May 2003.

Respondents' views

ELEXON received seven responses to the consultation on Modification Proposal P126. Six responses (representing 23 Parties) expressed support for the Proposed Modification, and the remaining one (representing 1 Party) provided a "no comment" response.

Four responses (representing 18 Parties) supported the legal drafting, whilst three responses made no comment. Six responses (representing 23 Parties) supported the recommended Implementation Date whilst one response made no comment.

The respondents' views are summarised in the Modification Report for Modification Proposal P126, 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 P126, the draft Modification Report and the consultation responses received.

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 recommended that the Authority should approve the Proposed Modification and that, if approved, the Proposed Modification should be implemented 15 Business Days after any such Authority approval.

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 P126 will better facilitate achievement of the Applicable BSC Objective (d), as it promotes efficiency in the implementation and administration of the Balancing and Settlement arrangements.

Ofgem considers that it is in the interests of all Parties that the BSC is as accurate and internally consistent as possible. The correction of the minor inconsistencies, typographical errors and omissions identified by Modification Proposal P126 will make the BSC more robust. Furthermore, it will make the BSC easier both for Parties to understand and ELEXON to administer and thereby reduce the likelihood of misunderstandings or confusion impacting on a Party's understanding of the operation of the Code.

The Authority's decision

The Authority has therefore decided to direct that the Proposed Modification P126, 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 P126 is 15 Business Days after the date of this decision letter, that being the day on which the Authority decided to approve the Modification Report.

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.

Yours sincerely,



David Edward

Head of Electricity Code Development

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