



Direct Dial: 020-7901 7435

8 July 2003

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P116

Dear Colleague,

Modification to the Balancing and Settlement Code (“BSC”) - Decision and Direction in relation to Modification Proposal P116: “Changes to Allow Line Loss Factor Data from BSC Website to be used in Settlement”

The Gas and Electricity Markets Authority (the “Authority”)¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P116, “Changes to Allow Line Loss Factor Data from BSC Website to be used in Settlement”.

The BSC Panel (the “Panel”) recommended to the Authority that Modification Proposal P116 should be made and that the Implementation Date should be 27 November 2003 if an Authority Decision is received by 10 July 2003 or 26 February 2004 if an Authority Decision is received after 10 July 2003 but before 11 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 in line with the Modification Proposal P116.

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 P116, as set out in the Modification Report.

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

² ELEXON document reference P116RR10, Version No. 1.0, dated 16 May 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.

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

Background

Line Loss Factor (“LLF”) is defined in the BSC as “a multiplier which, when applied to the value of a SVA Metering System’s Consumption, converts such value into its estimated value at the Grid Supply Point, that is including distribution losses”. In the half-hourly market, Line Loss Factor (“LLF”) data is an essential component for the conversion of an Energy Price on the Grid into a delivered price at a customer’s premises. Supplier Volume Allocation (“SVA”) LLFs apply in respect of each metering system in each Grid Supply Point (GSP). LLF data is sent by the Public Distribution System Operators (“PDSOs”) to relevant Parties and Party Agents via the LLF Data File (the D0265 data flow over the Data Transfer Network or a D0265 file sent by e-mail), as well as being reported on the BSC Website. However, for the purpose of Settlement, Section S of the BSC requires a Half Hourly Data Aggregator (“HHDA”) to use only the LLF data provided directly by PDSOs .

The Authority approved Alternative Modification Proposal P30⁴ on 23 January 2002, with an Implementation Date of 27 March 2002. One element of this Proposal was the provision of LLF data on the BSC Website, with the intent that it could be used in Settlement, subject to approval of an appropriate Change Proposal. However, subsequent analysis determined that a Change Proposal of the kind envisaged by the P30 Modification Group would be inconsistent with Section S and Annex S-2 of the BSC. Accordingly, a HHDA is still unable to use LLF data downloaded from the BSC Website in Settlement. In order to rectify this situation, East Midlands Electricity Distribution plc submitted Modification Proposal P116, “Changes to Allow Line Loss Factor Data from BSC Website to be used in Settlement” on 6 January 2003.

The Modification Proposal

Modification Proposal P116 seeks to modify the BSC so as to:

- ◆ allow the LLF data from the BSC Website to be used in Settlement
- ◆ remove the obligation on PDSOs to send LLF data individually to the relevant BSC Parties and Party Agents.

The Proposer’s justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective⁵ C3 (3) (c).

⁴ Entitled “Availability Of Market Information To BSC Parties And Non-BSC Parties”

⁵ 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 Proposer considered that Modification Proposal P116 would:

- ◆ remove an unnecessary constraint on the business processes operated by a HHDA, thereby promoting efficiency and competition in the supply of electricity
- ◆ reduce unnecessary costs incurred by PDSOs, which may reduce Distribution Use of System charges and consequently Supplier entry costs
- ◆ ensure all market participants use a single source of LLFs and thereby help to preserve the integrity of SVA
- ◆ remove the need for relevant Parties, Party Agents and BSC Agents to process an unnecessary data flow, which in turn would remove a barrier to market entry
- ◆ give full effect to the intent behind the LLF element of Alternative Modification P30.

The Panel considered the Initial Written Assessment at its meeting of 16 January 2003 and agreed to submit Modification Proposal P116 to the Assessment Procedure. The Proposal was considered by the Volume Allocation Standing Modification Group (the "Group") over the course of three meetings (on 29 January, 20 February and 18 March 2003). The Group assessed the Proposal against Applicable BSC Objectives (c) and (d). After considering a number of potential solutions, the implementation method selected by the Group allows for the publishing of LLF data on the BSC Website in all relevant file formats and discontinues the sending of D0265 data flow over the Data Transfer Network ("DTN"). This option will affect systems and processes currently utilising the D0265 flow to obtain LLF data. All such systems and processes would need to use the appropriate D0265 file from the BSC Website because Parties and Party Agents would no longer receive individualised D0265 flows over the DTN or by e-mail. The Proposal places an obligation on BSCCo to become a fully authorised provider of LLF data. The Group concluded that the Proposal would better facilitate the achievement of Applicable Objective (d) by providing a centralised facility for the dissemination of LLF data, but that it was unclear as to whether the achievement of Applicable Objective (c) would be better facilitated.

ELEXON published a draft Modification Report on 17 April 2003, which invited respondents' views by 28 April 2003.

Respondents' views

ELEXON received 7 responses to the consultation on Modification Proposal P116. All of the responses (representing 37 Parties and 1 non-Party) expressed support for the Proposed Modification.

In supporting the Modification Proposal, some of the consultation responses considered that Modification Proposal P116 would result in cost saving to a number of Parties. The responses also reasoned that the implementation of the Proposed Modification would improve the accuracy of LLF data used by Parties in that each PDSO would generate a single file which would then be validated and made available centrally by ELEXON.

The respondents' views are summarised in the Modification Report for Modification Proposal P116, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 8 May 2003 and considered the Modification Proposal P116, the draft Modification Report, the views of the Modification Group 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 on 27 November 2003 if an Authority Decision is received by 10 July 2003 or 26 February 2004 if an Authority Decision is received after 10 July 2003 but before 11 September 2003.

Ofgem's view

Having carefully considered the Modification Report and the Panel's recommendation, Ofgem considers, having had regard to the Applicable BSC Objectives and its statutory duties, that Proposed Modification P116 will better facilitate achievement of the Applicable BSC Objectives.

It is Ofgem's view that the provision of a centralised facility for the dissemination of LLF data better facilitates achievement of Applicable BSC Objective (d). The use of a single source for the LLF data should minimise the risk of relevant Parties are using incorrect data and should therefore help to preserve the integrity of the Settlement system.

Ofgem notes the concern expressed during the Assessment Procedure that the audit trail may be compromised if the D0265 data flow is not provided, because certain integrity checks will be affected. Ofgem is satisfied with the BSC Auditor indication that it had no major concerns about the impact of the Modification Proposal on the audit trail, as the Audit is based on the actual data used and not on the flow of D0265 files.

Ofgem has considered whether the Modification Proposal better facilitates achievement of Applicable BSC Objective (c). Ofgem has noted that the Group found it difficult to assess P116 against Applicable BSC Objective (c) due to the general lack of cost-benefit estimates from industry participants. It brings benefits for the PDSOs by significantly reducing the number of LLF data transfer operations they have to carry out, but this is offset by the consequential changes required by Parties who currently receive the data over the DTN.

A number of Group members considered that Modification Proposal P116 would better facilitate the achievement of Applicable BSC Objective (c) on the basis there were costs savings which, in a competitive environment, would be passed on to Suppliers. It is Ofgem's view that the lack of relevant and applicable information in this regard means that Modification Proposal P116 cannot reliably be said to better facilitate the achievement of Applicable BSC Objective (c). However, Ofgem's distribution price control review team is aware of the issue with regards the pass-through of PDSO cost savings and will give due consideration to the implications of this Proposal's approval when setting the next distribution price control.

The Authority's decision

The Authority has therefore decided to direct that the Proposed Modification P116, 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 P116 is 27 November 2003.

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,

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

David Edward
Head of Electricity Code Development

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