



Direct Dial: 020-7901 7435

2 May 2003

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P117

Dear Colleague,

Modification to the Balancing and Settlement Code ("BSC") - Decision and Direction in relation to Modification Proposal P117: "Rectification of Past Notification Errors (PNEs)"

The Gas and Electricity Markets Authority (the "Authority")¹ has carefully considered the issues raised in the Modification Report² in respect of Modification Proposal P117, "Rectification of Past Notification Errors (PNEs)".

The BSC Panel (the "Panel") recommended to the Authority that the Proposed Modification P117 should be made with an Implementation Date of 15 Business Days after the date of any such Authority approval.

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 P117.

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 BSC in line with Modification Proposal P117, 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.

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

² ELEXON document reference P117RR Version No. 1.0, dated 18 March 2003

³ Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and include amongst other things social and environmental guidance provided to Ofgem by the government.

Background

The Authority approved Alternative Modification P37, "To provide for the remedy of past errors in Energy Contract Volume Notifications and in Metered Volume Reallocation Notifications", on 10 May 2002. This resulted in the origination of Section P6 of the Code. Section P6.5.1 of the Code currently states that where the Panel determines that a Past Notification Error ("PNE") has occurred and should be rectified, adjustments shall be taken into account in the next Settlement Run. If the Final Reconciliation Settlement Run has already taken place, the Code only allows adjustments to be taken into account in a Post-Final Settlement Run.

The Authority approved Modification Proposal P61, "Ad Hoc Adjustments to Settlement involving material errors without resorting to Ad Hoc Settlement Runs", on 28 August 2002. Following its implementation on 10 December 2002, it dispensed with Ad-Hoc Settlement Runs and uses timetabled Settlement Runs and/or Extra-Settlement Determinations (or manual interim adjustments where required) as a means of correcting material errors under the Code.

Since the Code does not allow the use of an Extra-Settlement Determination in relation to PNE claims, it is necessary for the Post-Final Settlement Runs for any Settlement Days that are potentially affected by a claim under Section P6 to be held back until such time that the Panel makes its determination on those claims. This may lead to non-P6 claims being held back for a considerable time. In order to rectify this situation, the BSC Panel submitted Modification Proposal P117, "Rectification of Past Notification Errors (PNEs)" on 29 January 2003.

The Modification Proposal

Modification Proposal P117 seeks to modify the BSC so as to allow an Extra-Settlement Determination be used for PNE claims where the Final Reconciliation Run for the relevant Settlement Period has taken place before the Panel has made its determination on those claims. The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective⁴ C3 (3) (d).

In submitting this Proposal, the Panel considered that the provision of this extra method for rectifying PNEs would create flexibility in the means by which PNEs can be resolved and also rectify a minor inconsistency in the means by which Trading Disputes are dealt with by the Code.

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 13 February 2003 and agreed to submit Modification Proposal P117 directly to the Report Phase. ELEXON published a draft Modification Report on 19 February 2003, which invited respondents' views by 3 March 2003.

Respondents' views

ELEXON received seven responses to the consultation on Modification Proposal P117. Six responses (representing 15 Parties and one non-Party) expressed support for the proposed Modification and the remaining one (representing 1 Party) provided a "no comment" response.

The respondents' views are summarised in the Modification Report for Modification Proposal P117, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 13 March 2003 and considered the Modification Proposal P117, 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 15 Business Days after the date of 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 Modification Proposal P117 will better facilitate achievement of the Applicable BSC Objectives.

Ofgem's view is that the additional flexibility provided by the ability to utilise Extra-Settlement Determinations in the rectification of PNEs should ensure that Parties involved in non-P6 claims will not be disadvantaged by having their claims held back for a considerable time. Furthermore, the implementation of this Proposal will make the means of rectification of PNEs consistent with that for Trading Disputes. Ofgem considers that both of these points will promote efficiency in the implementation and administration of the balancing and settlement arrangements, thereby better facilitating achievement of Applicable BSC Objective (d).

The Authority's decision

The Authority has therefore decided to direct that the Proposed Modification P117, 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 P117 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,

A handwritten signature in black ink, appearing to read 'DEU', is positioned above the printed name and title.

David Edward

Head of Electricity Code Development

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