

By E-mail: On behalf of the BSC Panel:

17 September 2010

Mark Cox
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Dear Mark

BSC Panel Response to Ofgem Open Letter Consultation on Potential Significant Code Reviews (SCRs)

I am replying to your open letter consultation dated 12 August 2010 on behalf of the BSC Panel (the Panel).

In your letter you ask whether it is appropriate to consider three areas through the vehicle of an SCR. Whilst some Panel Members would welcome a holistic review of the electricity cash out arrangements with full industry participation and a significant outcome, others expressed concern that the timing of a review may be inappropriate given the potential impact from the work still being undertaken by DECC in scoping out how renewable and intermittent generation would be managed. Some members expressed the view that market illiquidity should have greater priority – sharpening price signals may exacerbate an already difficult trading situation. Ever since the balancing and settlement arrangements became effective in 2001 attempts have been made to reshape the cash out arrangements and considerable time and effort have been expended in processing changes to the electricity cash out regime resulting in complex, and what are generally perceived by a number of parties to be, less than optimum arrangements. In our experience parties have also struggled to distinguish between energy and system requirements when looking at cash out. The Panel recognises that industry code procedures are less effective at implementing substantive strategic change and some Panel Members also noted that the SCR process is one of a number of mechanisms at the Authority's disposal to address industry wide issues and, in the case of cash out, the SCR process might not necessarily be the right approach.

The Panel also welcomes a strategic debate around the impact of smart metering on wider industry processes, including settlement timescales and accuracy. Again this is an area where change, some of it minor, some of it more substantive, has been initiated since the arrangements were introduced under the Pooling and Settlement Agreement and transposed in to the Balancing and Settlement Code.

With the Panel's support ELEXON has already given some thought to the impact of smart metering on the Code but your proposed strategic review will provide a welcome opportunity for a more radical overhaul of the arrangements to facilitate a smart metering world. In the Panel's view this strategic overview should also look beyond smart metering and ensure that whatever conclusions arise from the SCR also ensure that arrangements are fit for purpose in a smart grid environment.

The Panel has no view on gas security of supply arrangements (beyond the impact they may have on the effectiveness of the electricity cash out arrangements).

The Panel would encourage you to utilise the technical expertise within ELEXON to support any review you might initiate on cash out and settlement. It would also welcome regular updates on the progress of SCRs you might initiate, not only to help ensure that it and the industry is kept informed of progress on SCRs but also to enable it to progress any subsequent modifications efficiently through the BSC change process. It would also appreciate some clarity around the timing and way in which any SCRs will feed in to DECC's recently announced market reform initiative.

Please don't hesitate to contact Megan Bennie, the Panel Secretary on 020 7380 4189 if you have any queries or wish to discuss this response further.

Yours sincerely

A handwritten signature in black ink that reads "Nich Durlacher". The signature is written in a cursive, slightly slanted style.

Nicholas Durlacher

BSC Panel Chairman, on behalf of the BSC Panel