Direct Dial: 020 7901 7355

17 December 2002

The National Grid Company, BSC Signatories and
Other Interested Parties

Our Ref: MP No P81

Dear Colleague,

Modification to the Balancing and Settlement Code ("BSC") - Decision and Direction in relation to Modification Proposal P81: "Removal of the Requirement for Half Hourly Metering on Third Party Generators at Domestic Premises"

The Gas and Electricity Markets Authority (the "Authority")[1] has carefully considered the issues raised in the Modification Report[2] in respect of Modification Proposal P81, "Removal of the Requirement for Half Hourly Metering on Third Party Generators at Domestic Premises".

The Balancing and Settlement Code Panel (the "Panel") recommended to the Authority that:

- Alternative Modification Proposal P81 should be made with an Implementation Date of 28 September 2003 if a determination is made by the Authority prior to 1 April 2003;

- Proposed Modification P81 should not be made. In the event that the Authority determines that Proposed Modification P81 should be made, the Implementation Date should be 28 September 2003 if a determination is made by the Authority prior to 1 April 2003; and

- the initial value of Small Scale Third Party Generating Plant Limit be set to a maximum total Generation capacity of 16 Amperes per phase on a low voltage single (230 Volt) or multi-phase (400 Volt) supply.

The Authority has decided to direct a Modification to the BSC.

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

[2] ELEXON document reference P81RR, Version No. 1, dated 18 November 2002

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 Alternative Modification Proposal P81, 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

TXU UK Ltd. submitted Modification Proposal P81, "Removal of the Requirement for Half Hourly Metering on Third Party Generators at Domestic Premises" on 3 May 2002. The justification for the Modification Proposal was that it would better facilitate achievement of the Applicable BSC Objective[3] C3 (3) (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".

The Panel considered the Initial Written Assessment at it meeting of 16 May 2002 and agreed to submit Modification Proposal P81 to the Definition Procedure. The Modification Group (the "Group") considered the Modification Proposal over the course of two meetings in the Definition Procedure and three meetings in the Assessment Procedure. The resultant Assessment Report was presented to the Panel at its meeting of 17 October 2002, with the recommendations that the Proposed Modification should not be made and that the Alternative Modification Proposal should be made with an Implementation Date of 20 January 2004, if a positive determination is made by the Authority prior to 1 April 2003.

The Modification Proposal

Currently, Section K of the BSC states that any Party responsible for any Exports or Imports of electricity at a boundary point shall ensure that Metering Equipment is installed that can separately measure quantities of Import and Export. Section L states that Third Party Generating Plant wishing to trade in Supplier Volume Allocation (SVA) must have Half Hourly Metering Equipment (HHME) installed. Consequently, generation at domestic premises must be metered on a half-hourly basis if it is to be accounted for in Settlement. Given the likely scale of such Export from a domestic premise, the cost of HHME would be prohibitive relative to the likely reward for the Export.

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[3] The Applicable BSC Objectives, as contained in Condition C3 (3) of National Grid Company'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.

Modification Proposal P81 seeks to relax the current BSC requirements so that Exports from domestic premises can be taken into account in Settlement without HHME being installed. It does not attempt to alter the requirement for separate metering of Import and Export quantities.

The proposer believes that the removal of this cost barrier would facilitate the growth of micro generation technologies, thereby increasing competition in the generation and supply of electricity.

In its discussions, the Group considered three main profiling methods that could be used to implement Modification Proposal P81; Settlement on existing standard profiles, Settlement using specific domestic generation technology profiles and Settlement using demand profiles that have been specifically adjusted to incorporate domestic generation characteristics. It was considered that the option to settle on the current demand profiles would introduce too much error into the Settlement system. The Group decided against the generation of new load profiles for the Settlement of domestic generation for the following reasons:

a. Cost
b. Lack of suitably robust data with which to generate profiles
c. It would require a different profile for each generation technology, thereby leading to a proliferation of load profiles

Instead, it proposed to modify the existing demand profiles for domestic customers so as to incorporate the effects of on-site generation over defined time periods during the day (known as "chunking" profiles). It is expected that the Profile Administrator can have these chunked profiles ready for use for the major technologies (micro-CHP and Photo Voltaic [PV]) by October 2003. This solution is based on the premise that the Profile Administrator can gain access to data on typical operating times and loads for current gas boilers and generation data for currently installed PV systems. Additionally, the solution proposes both the addition of four new NHH Consumption Component Classes[4] to allow the Supplier Volume Allocation Agent to provide explicit reporting of the total volume of Export energy and changes to Market Domain Data flows so that each Standard Settlement Configuration[5] has an associated Import or Export flag.

During the discussions, the Group considered that the use of the term "domestic premises" was too general and that it would be better to incorporate some capacity restriction on the Third Party Generating Plant that would be entitled to exemption from HHME being installed. It decided to adopt the capacity limit being developed by the Distribution Code Review Panel and the Electrical Safety, Quality and Continuity Regulations 2002, which will come into force on 31 January 2003. This limit (the Small Scale Third Party Generating Plant Limit) is set at a maximum total generation capacity of 16 Amperes per phase on a low voltage single (230 Volt) supply or a multi-phase (400 Volt) supply. The legal text allows the Panel the discretion to change this level without requiring a further Modification Proposal, but subject to consultation

[4] A Consumption Component Class is one of a number of categories to which energy values are assigned for reporting purposes by the Supplier Volume Allocation process

[5] A Standard Settlement Configuration is a set of register switching times for which the Supplier Volume Allocation Agent calculates profile coefficients.

with Parties and the approval of the Authority. The Alternative Proposal is the same as the original Modification Proposal in all other respects.

ELEXON published a draft Modification Report on 25 October 2002, which invited respondents' views by 1 November 2002.

Respondents' views

ELEXON received ten responses to the consultation on the draft Modification Report for Modification Proposal P81. Six responses (representing 27 Parties) expressed support for the Report's recommendations (though the support of one of these respondents was conditional), one response (representing 4 Parties) opposed the Report's recommendations and the remaining three respondents (representing 4 Parties) did not comment on the Report's recommendations.

Those in favour of the solution being proposed by the Alternative Modification Proposal considered that it represented a pragmatic and flexible means of facilitating the growth of micro-generation technologies, without compromising on the quality of data entering Settlement. The respondent against the Alternative Modification Proposal considered that the cost of the proposed solution was excessive given that it would not be suitable if there were a large number of micro-generation units entering Settlement. It also commented that it considered the arguments in favour of Applicable Objective C3 (3) (c) as weak and favoured work to subsidise HH data collection so that a more informed decision may be taken when sufficient quantities of robust data have been acquired.

Further, one comment was made objecting to the bringing forward of the proposed Implementation Date from 20 January 2004 to 28 September 2003 and two respondents made comments regarding the Panel being able to change the Small Scale Third Party Generating Plant Limit.

The respondents' views are summarised in the Modification Report for Modification Proposal P81, which also includes the complete text of all respondents' replies.

Panel's recommendation

The Panel met on 14 November 2002 and considered the Modification Proposal P81, the draft Modification Report, the views of the Modification Group and the consultation responses received.

The Panel recommended that the Proposed Modification should not be made and that the Authority should approve the Alternative Modification Proposal with an Implementation Date of 28 September 2003. Moreover, the Panel recommended that the initial value of Small Scale Third Party Generating Plant Limit should be set to a maximum total Generation capacity of 16 Amperes per phase on a low voltage single (230 Volt) or multi-phase (400 Volt) supply.

Ofgem's view

Ofgem considers, having had regard to the Applicable BSC Objectives and its statutory duties, that the Alternative proposed modification should be made. Ofgem agrees with the BSC Panel that the removal of the requirement for Half Hourly Metering on Third Party Generators in the manner detailed in the Alternative Modification Proposal P81 will better facilitate achievement of the Applicable BSC Objectives in that it will introduce a climate more conducive to the growth of micro-generation technologies and will promote effective competition in the generation and supply of electricity in accordance with Objective C 3 (3) (c).

While noting the benefits to competition that may result from the removal of the obligation to have Half-Hourly Metering in the manner described in the Proposal and its Alternative, Ofgem is mindful that such removal should not result in a significant and consequential compromise of the integrity of Settlements or otherwise adversely affect the trading arrangements. Ofgem acknowledges the concerns of respondents with regard to the costs, the implementation method and the Settlement implications of any significant uptake in the technology associated with the Alternative Proposal. Ofgem also acknowledges that P81 Alternative may not be the optimal solution to promoting growth of micro-generation technology but considers that the Alternative Proposal offers the best solution presently available for promoting competition in generation and supply in this area of the market. Further, on the subject of the metering solutions, Ofgem is assured that in accordance with the principles outlined in its March 2002 consultation paper on Distributed generation, that the purport of Alternative Proposal P81 is not to attempt to alter the requirement for separate metering of Import and Export quantities.

Ofgem considers that the total maximum generating capacity limit set out in the Alternative Proposal P81 (16 Amps per phase on a low voltage single supply or a multi-phase supply) provides a more appropriate parameter than that of "domestic premises" set out in the Original Proposal in that it will limit the size of the Export Energy that could be treated as NHH and would therefore reduce the amount of error that could be introduced into the Settlement process. With regard to the Alternative Proposal, Ofgem notes the concerns of respondents at the manner in which the Panel have arrogated to themselves the power to vary this threshold. Ofgem shares these concerns, but in this instance does not consider the Panel's action to be of a nature that warrants rejection of the Proposal. All the same, Ofgem considers that generally, aspects of Proposals that may have a significant impact on Parties should be subjected to evaluation by a Modification Group.

In coming to its conclusion, Ofgem also had regard to the guidance issued by the Secretary of State as to the contribution the Authority can make towards the attainment of the Government's social and environmental policies. Consequently, Ofgem considers that the removal of the obligation for Half-Hourly Metering at domestic premises will assist the Government's sustainable development strategy in that it will remove a cost barrier to the growth of micro-generation technologies.

Ofgem considers it important that appropriate economic incentives exist to reward the efficient use of generation and demand. Settlement of domestic Export (and indeed domestic Import) by profiling acts against this principle, in that it doesn't adequately differentiate between cost and

reward levels for different time periods. Nevertheless, Ofgem considers that the implementation of Modification Proposal P81 is appropriate for a transitional period of growth for micro-generation, but that it may be necessary to review the arrangements for such Settlement and metering solutions once the technology has an established base of installations.

The Authority's decision

The Authority has therefore decided to direct that the Alternative Modification Proposal P81, as set out in the Modification Report for Modification Proposal P81, 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 Alternative Modification resulting from the Modification Report.

The Implementation Date for Alternative Modification Proposal P81 is 28 September 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,

Nick Simpson
Director of Industry Code Development
Signed on behalf of the Authority and authorised for that purpose by the Authority