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National Grid Electricity Transmission plc,
BSC Signatories and Other Interested Parties

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Dear Colleague

Balancing and Settlement Code ("BSC") – Decision in relation to Modification Proposal P199 "Quantification of Demand Control in the BSC as instructed under OC.6 (c), (d) & (e) of the Grid Code"

The Gas and Electricity Markets Authority[1] (the "Authority") has carefully considered the issues raised, and the responses received, in respect of Proposed Modification P199 - "Quantification of Demand Control in the BSC as instructed under OC.6 (c), (d) & (e) of the Grid Code".

The BSC Panel (the "Panel") recommended to the Authority that neither Proposed nor Alternative Modification P199 should be approved. In the event that the Authority determines that the Proposed or Alternative Modification P199 should be made, the Panel recommended an Implementation Date of 22 February 2007 where the Authority's decision is received on or by 23 August 2006. If the Authority's decision is received after this date but before 19 December 2006, the Panel recommended that the Implementation Date should be 28 June 2007.

Having considered the final Modification Report[2] in respect of Proposed and Alternative Modification P199, the Panel's recommendation and having regard to the Applicable BSC Objectives[3] the Authority has decided not to direct a modification to the BSC in line with Proposed or Alternative Modification P199.

Background to the proposal

Purpose of cash out

The electricity cash out arrangements are designed to provide generators, suppliers and large customers with commercial incentives to balance electricity

[1] Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.
[2] ELEXON document reference P199MR, Version No 1.0, dated 7 July 2006.
[3] The Applicable BSC Objectives, as contained in Standard Condition C3 (3) of National Grid Electricity Transmission plc'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 of the GB 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; and
d) promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

supply and demand as efficiently as possible. National Grid Electricity Transmission (NGET), as the System Operator (SO), has the role of residual energy balancer. That is, NGET buys or sells electricity and contracts reserve to keep supply and demand in balance. This is known as energy balancing[4].

The cash out arrangements are designed to target the costs of energy balancing to the Parties who create those costs (i.e. the Parties whose contracted generation (supply) does not balance with their physical generation (supply) in a given period). The current cash out arrangements consist of a 'dual' cash out mechanism. This means that there are two Energy Imbalance Prices, or 'cash out prices': the System Buy Price (SBP) and the System Sell Price (SSP). A more detailed description of Great Britain's electricity cash out arrangements can be found in Ofgem's P194 decision letter[5].

Demand Control

The operating procedures and principles governing NGET's relationship with Users of its Transmission System are set out in the Grid Code. The Grid Code specifies procedures for both planning and operational purposes. It covers both normal and exceptional circumstances. Operating Code 6 ("OC6") of the Grid Code details the provisions that Network Operators and NGET must make to initiate a reduction in demand in the event of insufficient generation or transmission capacity to meet demand ("Demand Control").

Pursuant to Grid Code OC6, should NGET, in its role as SO, consider that insufficient generation will be available to meet demand in a particular Settlement Period(s), it may instruct a Network Operator to reduce the demand on its system (for instance through voltage reduction). In the event of such an instruction, customers that are supplied via that Network Operator's system will be credited with a lower metered volume than would have been the case had Demand Control not been initiated.

The BSC contains no specific provisions for imbalance cash out in the event of Demand Control. Therefore a supply Party whose customers have been affected by Demand Control will be cashed-out at a longer position than if there had not been Demand Control. This is because its customers' metered volumes will be lower than would otherwise have been the case, but its contracted position will remain the same.

Recent history

The treatment of Demand Control within the BSC has been previously considered under Modification Proposal P138 and within the Cash Out Review Working Group (CORWG). Modification Proposal P138 was raised in August 2003 by Innogy plc. It proposed the use of marginal pricing for including Demand Control volumes into cash out and as the level for compensation to parties affected by Demand Control. Modification Proposal P138 was rejected by the Authority on three grounds. First, the Authority was not satisfied that it had been demonstrated that a defect existed at the time. Second, the Authority was concerned that the use of a marginal price could increase the risk of gaming and manipulation. Third, the Authority was

[4] NGET also takes actions (again by contracting with generators, suppliers and customers) to maintain the quality and reliability of supplies e.g. by resolving constraints on the transmission system.
[5] BSC Modification Proposal P194 "Revised Derivation of the Main Energy Imbalance Price" - Decision and Direction – 16 June 2006. This can be found at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/14419_P194_D.pdf

concerned that P138 would introduce a discontinuity into the arrangements where cash out prices would differ depending on whether Demand Control had been instigated or not.

Since the rejection of Modification Proposal P138 in August 2004, emergency cash out arrangements have been the focus of certain CORWG discussions. The CORWG was established by Ofgem in September 2004 for the purpose of assessing issues relating to the electricity and gas cash out arrangements based on the consideration of a number of primary and secondary objectives[6]. One of the issues considered by this workstream surrounded emergency cash out arrangements. As a result of those CORWG meetings, a general consensus emerged that the current arrangements regarding Demand Control in electricity were defective. Following these discussions, Modification Proposal P199 was raised by NGET.

Gas arrangements

In considering the arrangements in electricity, it is important to consider how emergency arrangements are treated in related markets. The commercial gas arrangements facilitate gas deficit emergencies (GDE's) as per UNC modification 044[7]. UNC 044 was a fundamental change to the gas arrangements brought in ahead of winter 2005/06. Under UNC 044, volumes affected by demand curtailment are referred to as an Emergency Curtailment Quantity (ECQ) title trade and have an associated 'trade' payment. The ECQ title trade seeks to assign the quantities of gas associated with emergency curtailment actions as a Trade Nomination between National Grid NTS and each user. The ECQ is calculated at the relevant System Exit Points as the aggregate quantity of Emergency Curtailment occurring as a result of a potential or actual GDE less any quantity of user commercial "interruption" at the same System Exit Points. Users with demand quantities reduced by the emergency receive payment based on the ECQ multiplied by a price determined as the 30 day average System Average Price (SAP) prevailing at the commencement of the GDE.

The Modification Proposal

NGET submitted Modification Proposal P199 "Quantification of Demand Control in the BSC as instructed under OC.6 (c), (d) & (e) of the Grid Code" on 30 January 2006.

Proposed Modification P199 seeks to make provisions for Demand Control within the BSC such that:

- demand reduced via Demand Control is treated as an Offer Acceptance[8];
- the total volume of Demand Control deemed to have occurred will be included in the imbalance cash out calculations as an un-priced volume; and

[6] The CORWG would primarily explore whether the cash out arrangements in electricity and gas: provide appropriate commercial incentives for market participants to balance their own positions and therefore deliver security of supply; and reflect the costs incurred by the relevant system operator when undertaking energy balancing actions as residual balancer and therefore provide appropriate signals to market participants as to the costs of supplying balancing energy in the relevant balancing period.

[7] See Ofgem's UNC 0044 decision letter - Uniform Network Code modification proposal 042 "Revision of the Emergency Cash-out price" and Uniform Network Code modification proposal 044 "Revised Emergency Cash-out & Curtailment Arrangements", dated 16 September 2005.

[8] An Offer Acceptance is an action taken within the Balancing Mechanism to increase generation or reduce demand. Treatment as an Offer Acceptance allows for the action to be included in the imbalance volumes used in cash out.

- the total Demand Control volume is allocated to individual Balancing Mechanism Units (BMUs) based on historic energy consumption, although no payment will be made to the affected BMUs for the Offer Acceptance.

The modification also includes a process by which parties affected by Demand Control can appeal the proportion of total Demand Control allocated to them.

Alternative Modification P199 differs from Proposed Modification P199 in that it proposes that parties affected by demand control should receive a payment for the associated demand control volumes. This payment would be at the market price which is derived from data submitted by market index data providers.

A more detailed description of the Proposed and Alternative Modifications can be found in the Assessment Report.[9]

Respondents' views

This section summarises the principal themes of the respondents' views to the Assessment Consultation and DMR and is not intended to provide a comprehensive overview of the responses received. Respondents' views can be found in full on Elexon's website[10]

A total of ten parties responded to the Draft Assessment Consultation.[11] In addition to NGET, one other respondent was in favour of the proposal and five were in favour of the alternative[12]. One respondent was neutral as to whether or not either should be adopted and eight respondents did not support the proposal. Three respondents did not support the alternative.

General comments

Defect in existing arrangements

In addition to the two respondents in favour of the proposal, several respondents provided support for the intention of the proposal despite not supporting the solution. Two respondents expressed that they did not believe a defect with the current arrangements had been demonstrated.

Demand Control volume in the Net Imbalance Volume

Five respondents considered that including the volume associated with Demand Control in the calculation of the Net Imbalance Volume (NIV) would lead to a more accurate reflection of NIV. These respondents considered that, in turn, this would lead to more appropriate energy imbalance prices calculations.

Adjustment of affected Parties' imbalance positions

Several respondents considered that, by seeking to adjust Parties' imbalance positions such that they more closely reflect the positions that would have

[9] Assessment Report for Modification Proposal P199.
'Quantification of Demand Control in the BSC as instructed under OC.6 (c), (d) & (e) of the Grid Code', 5 May 2006. This can be found on Elexon's website at:
http://www.elexon.co.uk/changeimplementation/ModificationProcess/ModificationDocumentation/modProposalView.aspx?propID=217
[10] www.elexon.co.uk.
[11] The respondents represent a total of 55 BSC registered parties.
[12] At least two of the five other respondents in favour of the Alternative indicated that the Alternative Modification better facilitates the relevant objectives than the Proposed Modification but did not make clear whether they preferred the Alternative to the current baseline.

prevailed had Demand Control not occurred, the proposals would more appropriately target the cost of imbalance on those Parties who contribute to the imbalance. These respondents considered that this would improve the incentives on Parties' to balance and reduce the likelihood of Demand Control being required.

Respondents supporting Modification Proposal P199 and/or Alternative Modification P199

Demand Control volumes un-priced in imbalance price calculations

Two respondents believed that treating Demand Control volumes as un-priced actions in the energy imbalance price calculation would offer a pragmatic solution. It was noted that the methodology by which a price is, or is not assigned to Demand Control volumes could reinforce or dilute the incentive to balance.

Compensation for affected Parties

Seven respondents were concerned that the original proposal would not provide a payment to compensate for the reduction in volumes caused by Demand Control. These respondents highlighted that affected Parties would be financially disadvantaged as they would have procured energy for which they cannot bill their customers. For this reason the Alternative Modification was preferred to the Proposed Modification by a majority of respondents.

Appeals process

Six respondents believed that there should be an appeals process. This was predominantly due to the inaccuracy of the mechanism for determining both total Demand Control volumes and the allocation of that volume to affected parties. It was felt that it would be sensible to have some form of recourse if there are obvious errors in the methodology that could be reasonably demonstrated to an appellant body. The ability to appeal would mitigate against the methodology's limitations. One respondent believed there was a potential risk of legal challenge if there was no appeals process and that this would be costly to the industry.

Respondents against Modification Proposal P199 and/or Alternative Modification P199

Demand Control volumes un-priced in imbalance price calculations

A majority of respondents did not support treating Demand Control volumes as un-priced actions in the energy imbalance price calculation. The main reason put forward by those who did not support an un-priced treatment was that this would not reflect the true cost of energy balancing within the energy imbalance price calculation. In addition, these respondents believed that it would not provide clear incentives on NGET to avoid Demand Control because it would not face any costs for an un-priced Offer acceptance.

Volume calculation methodology

There were serious concerns that the inaccuracy of the proposed methodology for calculating Demand Control Volumes, particularly in relation to the allocation of these volumes, would be detrimental to competition due to Parties purchasing electricity for which they cannot bill their customers. Whilst there was general acceptance that estimates were required and that these could never be one hundred per cent accurate, there were specific concerns that the methodology would not provide sufficiently accurate estimates. Respondents were concerned

that the methodology was overly simplified and made assumptions about Demand Control that may not correspond to reality. Other concerns raised by respondents related to the analysis conducted by Elexon on the accuracy of volume allocations, which showed significant errors, particularly in respect of the position of small players.

Compensation for affected Parties

One respondent opposed to the provision of any compensation payment believed that this would increase the complexity of the modification and would also increase its similarities to rejected modification P138.

Appeals process

Three respondents were against an appeals process. Reasons provided were because it added complexity when there is a need for a clear and consistent methodology. If any part of the allocation methodology is inappropriate, then the best way of rectifying this would be via future modification proposals.

Draft Modification Report (DMR)

A total of eight parties responded to the Draft Modification Report.[13] Six respondents agreed with the provisional Panel's recommendation that the Proposed Modification should not be made and four agreed that the Alternative should not be made. One respondent was neutral as to whether either the Proposed or Alternative Modification should be made. Three respondents were of the view that the alternative should be adopted of which one respondent also supported the Proposed Modification.

The points raised in the Report phase were consistent with, and identified during, the Assessment procedure.

Panel's recommendation

At its meeting on 13 July 2006, the BSC Panel considered responses to the DMR and reached a majority recommendation to the Authority that the Proposed and the Alternative Modifications should not be made. However, the Panel did recognise the existence of a defect with the current arrangements. As set out in the final Modification Report (FMR)[14], the main reasons for the Panel's final recommendation were:

> The Proposed and Alternative Modification P199 would lead to an improvement in the size and the direction of the NIV which leads to improved accuracy of the Energy Imbalance Volume. This increases incentives on parties to balance.
>
> However, the above benefit would be outweighed by the detrimental impact to:
>
> - competition due to the inaccuracy involved in allocating Demand Control volumes that would lead to parties being subject to inaccurate imbalance charges;
> - efficiency in the administration of the BSC due to the reallocation claims process adding additional complexity; and
> - for the Proposed Modification only, competition due to a lack of payment for Demand Control volumes that may result in a

[13] The respondents represent a total of 39 BSC registered parties.
[14] A full version of the FMR can be found at www.elexon.co.uk.

previously balanced party affected by Demand Control being adversely impacted financially.

Ofgem's views

Ofgem has carefully considered the views of respondents and the Panel in relation to Proposed and Alternative Modification P199. Ofgem does not consider that it has been demonstrated that either Proposed or Alternative Modification P199 would better facilitate the achievement of Applicable BSC Objectives compared to the existing baseline.

Overview

Ofgem shares the Panel view that a defect exists within the current electricity arrangements surrounding Demand Control. However, we also share the concern expressed by the Panel and numerous respondents that the methodology of the proposed solution is too inaccurate. Further to this, we have concerns that the appeals process would reduce the efficiency of the administration of the arrangements.

In this section we set out the reasons for the Authority's decision in the context of our assessment of the modification against the relevant objectives. Unless otherwise stated the views below apply to both the Proposed and Alternative Modification Proposals.

Relevant Objective (b) – Efficient, economic and coordinated operation of the transmission system

Incentives to balance

As set out above, the cash out arrangements are designed to provide Parties with commercial incentives to balance their electricity supply and demand as efficiently as possible. To achieve this, it is important that cash out prices are both calculated and then targeted onto those in imbalance in an appropriate manner. Both Proposed and Alternative Modification P199 seek to enhance the processes for calculating cash out prices and for ensuring that Parties have appropriate imbalance exposure in the event of Demand Control. Ofgem supports the aim of both of these suggested developments since they should enhance, in an appropriate manner, the commercial incentives to balance both during, and in advance of, Settlement Periods which are affected by Demand Control.

We agree with those respondents who believe that it is appropriate for Demand Control volumes to be included in the calculation of NIV. It would ensure that the volume of actions taken by the SO to balance the system is more accurately calculated and incorporated into the calculation of the net energy imbalance position. This, in turn, would help to ensure that cash out prices are appropriately determined.

Similarly, we agree that it is appropriate to maintain the level of Parties' imbalance positions irrespective of whether Demand Control is called by NGET as this should provide stronger commercial incentives on Parties to seek to contract to balance their own positions. It would also reduce any perverse incentive which Parties may face under the current arrangements given that their imbalance exposure could be more favourable under Demand Control conditions (i.e. those with short positions are made less short or pushed long and those with long positions are pushed longer). Both these factors should help to reduce the possibility of Demand Control being required.

However, while we are supportive of these initiatives in principle, we share the concerns raised by respondents in relation to the methodologies for applying these concepts. Both the respondents' views and Elexon's analysis highlight clearly that the proposed volume allocation methodology may result in significant allocation errors during a Demand Control event. We share the view that the identified deficiencies in the proposed methodology could lead to inaccuracies and uncertainty in the calculation of imbalance prices and Parties' imbalance exposure, which could offset the theoretical benefits of the proposals described above. We believe that this uncertainty could have a negative impact upon Parties' commercial incentives to balance and so could detract from the efficient, economic and co-ordinated operation of the system.

Including Demand Control volumes within cash out

We note that the majority of respondents considered that the treatment of Demand Control volumes as an un-priced action in the Energy Imbalance Price calculation may not provide prices that are reflective of the true cost of energy balancing during the periods of Demand Control. As outlined above, we believe that it is important for cash out prices to reflect the costs of the SO's energy balancing actions. In the case of Demand Control, NGET does not currently make a payment to the affected parties and, therefore, any price attached to Demand Control volumes would have to be a proxy rather than an actual price.

In these circumstances, we believe that it is important that, at the very least, the proxy selected should not weaken the price signals provided via cash out and the resulting incentives to balance. We consider that, relative to the existing baseline, treatment of Demand Control volumes as un-priced volumes would not weaken price signals, as SBP would not be dampened by including this volume as un-priced. Indeed, it might even increase SBP by preventing relatively high priced accepted offers being 'tagged' out[15]. Consequently, we believe that this approach would not be detrimental to the incentives on parties to balance. Therefore, we consider that this aspect of both Proposed and Alternative Modification P199 is, at worst, neutral to the facilitation of relevant objective (b) relative to the current baseline.

We note that the current gas arrangements do not include ECQ's in cash out. However, given the gas regime uses marginal pricing, this already provides for a strong price signal. For the point of comparison, it can be inferred that the use of marginal pricing in gas effectively results in the total curtailment quantities being priced at of below the SMP[16] buy.

Incentives on NGET - Compensation

We note that several respondents considered that, under Proposed Modification P199, Demand Control is a 'free option' to NGET, as it pays no compensation to those affected, and as such, it has no commercial incentive to ensure appropriate usage. While no financial payment is made by NGET in relation to Demand Control, we do not believe that NGET lacks incentives to use Demand Control appropriately. NGET's actions, as SO, are carefully monitored by market participants and Ofgem. NGET must, at all times, comply with various statutory and licence obligations that relate to the operation of the transmission system. If NGET used Demand Control inappropriately, Ofgem has the power to investigate and, if appropriate, take enforcement action.

[15] Offers that are tagged out do not impact the SBP calculation.
[16] System Marginal Price.

By establishing a compensation payment at the market price from NGET to affected Parties, Alternative Modification P199 provides a direct financial incentive on NGET in relation to its use of Demand Control. The concept of compensation at a market price aligns closely with the gas arrangements, which compensates users affected by emergency curtailment at 30 day average SAP. However, it is not clear that such pricing of Demand Control at market price would help to ensure appropriate usage by NGET, as it is used as a last resort balancing tool. Therefore, in terms of the efficient, economic and coordinated operation of the transmission system, we do not consider that the benefits of a market price for compensation have been demonstrated.

Ofgem's view against relevant objective (b)

In conclusion, we consider that whilst, in theory, Proposed and Alternative Modification P199 should enhance incentives to balance via the inclusion of Demand Control volumes in the cash out price calculations, the deficiencies with the associated methodology override any potential benefit. Therefore, we do not believe that either Proposed or Alternative Modification P199 would, on balance, have a positive impact on Applicable BSC Objective (b).

Relevant Objective (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

Adjusting imbalance exposure

As discussed above, the concept of returning Parties to the positions they would have been in had Demand Control not occurred would increase incentives to balance and so help to avoid the initiation of Demand Control in some cases. It should also promote competition. This is because Parties would not, as at present, have their imbalance exposure favourably adjusted by the initiation of Demand Control. Consequently, Parties would not stand to benefit in terms of their imbalance exposure from Demand Control and those Parties with short imbalance positions would be more appropriately exposed to the consequences of their imbalance. We believe that, in theory, this should enhance competition by more appropriately targeting imbalance onto Parties. This should also provide commercial incentives for Parties to seek to contract with the demand side to offer additional demand side response in the run up to an emergency.

However, we consider that, again, the weaknesses associated with the methodology for allocating Demand Control volumes to affected Parties would, in practice, introduce significant inaccuracies into this process. These inaccuracies may result in inappropriate adjustments to Parties' imbalance positions, which could create uncertainty and also reduce confidence in the potential outcome of the arrangements. As such, incentives for Parties to balance their positions may be reduced and this would be to the detriment of competition. As outlined, previously, we believe that these deficiencies are likely to outweigh the benefits associated with the principle of Proposed and Alternative Modification P199.

Compensation

With regard to the level of compensation, Ofgem's view is that this is finely balanced between Proposed and Alternative Modification P199. Under the Proposed Modification there are the strongest incentives to ensure all demand response is contracted ahead of any Demand Control period, but there is likely to be some detrimental impact to competition due to Parties effectively over-purchasing energy for customers to whom they cannot sell the energy to.

Whilst the incentive to contract demand side response ahead is reduced under the Alternative, there would be less detrimental impact to competition. Compensation at a market price would also seem appropriate to ensure there are not potential windfall gains to any party if Demand Control occurred.

As mentioned above, a consistent approach for compensation between the electricity and gas regimes would, in principle, seem appropriate unless there are reasons that are fundamental to the market in question as to why this should not be the case. Assigning the quantities of gas associated with emergency curtailment actions to users and the 30 day average SAP compensation leaves shippers' imbalance positions neutral to the effects of curtailment of their customers. At the time of the UNC 044 decision it was felt that this arrangement placed strong commercial incentives on shippers to contract for commercial interruption both prior to and in an emergency. It would therefore seem likely that the Alternative Modification P199 would provide similar incentives (despite these being weaker than the Proposed Modification).

Ofgem's view against relevant objective (c)

Theoretically, the solution to the identified defect would seem to better facilitate relevant objective (c). However, in Ofgem's view, the volume allocation methodology of both the Proposed and Alternative Modifications are not accurate enough to ensure the theoretical benefits will actually be achieved.

It is Ofgem's view, therefore, that the negative impacts of both the Proposed and Alternative Modification on applicable objective (c) outweigh the positive impacts. Thus, neither Proposed nor Alternative Modification P199 better facilitates the achievement of relevant objective (c).

Relevant Objective (d) – Promoting efficiency in the implementation and administration of the balancing and settlement arrangements

Appeals process

The proposed appeals mechanism is intended as a means of rectifying the allocation errors caused as a result of the deficiencies of the allocation methodology. However, given these deficiencies, we are concerned that Parties would raise appeals in almost all instances. This would create considerable uncertainty as to the impact on Parties of any Demand Control actions. This is particularly the case given the uncertainty concerning the basis upon which an appeal can be raised and then considered by the Panel. We consider that it would be preferable for any future efforts to focus on ways in which the allocation methodology could be improved up front in order to reduce the reliance upon an appeals mechanism at the back end of the process and so provide greater certainty.

In addition to the uncertainty, the appeals process adds complexity to the arrangements. Furthermore, as outlined in previous decision letters[17], Ofgem has concerns with the concept of the BSC Panel determining compensation claims.

[17] See Modification Proposal P80: "Deemed Bid/Offer Acceptance for Transmission System Faults" and Modification Proposal P173: "Revised Settlement Arrangements for Emergency Instructions". Modification Proposal P37: "To provide for the remedy of past errors in Energy Contract Volume Notifications and in Metered Volume Reallocation Notifications" provided for a Panel administered compensation claims mechanism, but only in relation to qualifying events that occurred prior to its Implementation Date - not to ongoing operational incidents.

Therefore, we believe that this element of Proposed and Alternative Modification P199 would not better facilitate the achievement of relevant objective (d).

Volume allocation methodology

The proposed processes for calculating and allocating the volume associated with Demand Control adds complexity to the administration of the arrangements. Therefore, Proposed and Alternative Modification P199 would not better facilitate the achievement of relevant objective (d).

Ofgem's view against relevant objective (d)

For the reasons outlined above, it is Ofgem's view, therefore, that neither Proposed nor Alternative Modification P199 better facilitate relevant BSC objective (d).

Ofgem's decision

For the reasons outlined above, Ofgem considers that neither Proposed Modification P199 nor Alternative Modification P199A would better facilitate the achievement of the relevant objectives set out in Standard Condition C3 (3) of NGET's Transmission Licence.

Therefore, Ofgem has decided not to direct a modification to the BSC.

Possible further work

Ofgem believes that the defect surrounding the treatment of Demand Control in the BSC is now well accepted and understood. It is important that a workable solution is developed. It seems necessary that, in order to do this effectively, potential improvements to arrangements associated with Demand Control need to be considered. Potential topics for consideration include the processes for initiating data measurement and collection, the interaction of the Grid Code with the BSC, and whether there is any scope or potential for Demand Control processes to become more commercially focused.

The CORWG has previously investigated emergency cash out arrangements and offers a broad scope (including the BSC and Grid Code) in which potential improvements can be considered. It would seem appropriate for this group to re-establish this workstream. We envisage a first meeting to occur during September 2006 with a three month timetable to identify appropriate ways forward to address the defect.

If you have any questions, please contact Chris Stewart on 020 7901 7164 or Simon Bradbury on 020 7901 7249.

Yours sincerely

Sonia Brown
Director, Wholesale Markets
Signed on behalf of the Authority and authorised for that purpose by the Authority