

Modification proposal:	<b>Balancing and Settlement Code (BSC) P261: Correcting an omission in the BSC arising from the P216 Alternative Modification legal text</b>		
Decision:	The Authority <sup>1</sup> directs that this proposal be made <sup>2</sup>		
Target audience:	National Grid Electricity Transmission Plc (NGET), parties to the BSC and other interested parties		
Date of publication:	02 August 2010	Implementation Date:	09 August 2010

## Background to the modification proposal

On 24 April 2008, the Authority approved BSC Modification P216<sup>3</sup>: Audit of LLF<sup>4</sup> Production. It was implemented on 20 April 2009. A subsequent review of the P216 legal text by Elexon<sup>5</sup> identified an omission in the BSC. Elexon found that P216 legal text implemented in the BSC does not fully reflect the intent of the approved modification.

P216 introduced a set of high-level principles to better facilitate the calculation, audit and approval of Line Loss Factors (LLFs). The principles are documented in BSCP128 'Production, Submission, Audit and Approval of Line Loss Factors'<sup>6</sup> which outlines how Licensed Distribution System Operators (LDSOs) must determine the methodologies for calculating LLFs. All LLF methodologies must be compliant with all the principles in BSCP128 and approved by the Panel<sup>7</sup>.

One of the principles (principle 15) approved by P216 states 'no retrospective changes should be made to approved site specific or generic LLFs other than to correct material manifest errors'. While this principle is fully represented in BSCP128, Elexon have noted the latter part of the principle ('other than to correct material manifest errors') was omitted from the P216 legal text and therefore does not currently appear in the BSC.

This omission currently prevents affected parties from recovering the resultant costs or additional impact experienced when an incorrect LLF is identified.

## The modification proposal

The BSC Panel<sup>8</sup> on the recommendation of Elexon raised Modification P261. It seeks to ensure all principles approved in P216 are correctly represented in the BSC. It will also ensure both the BSC and BSCP128 are consistent in representing the approved principles and do not provide conflicting guidance to LDSOs.

The proposal will amend the BSC to ensure:

- no retrospective changes shall be made to approved site specific or generic LLFs other than to correct material manifest errors;

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> <http://www.ofgem.gov.uk/Licensing/ElecCodes/BSCCode/BSC/Documents1/P216D.pdf>

<sup>4</sup> Line loss factors (LLFS) are used to apportion the losses within a distribution system between customers according to their energy usage.

<sup>5</sup> The role and powers, functions and responsibilities of Elexon are set out in Section C of the BSC.

<sup>6</sup> [http://www.elexon.co.uk/documents/bsc\\_and\\_related\\_documents/bsc\\_-\\_bscps/bscp128\\_v2.0.pdf](http://www.elexon.co.uk/documents/bsc_and_related_documents/bsc_-_bscps/bscp128_v2.0.pdf)

<sup>7</sup> The Panel delegates this responsibility to the Imbalance Settlement Group (ISG) and the Supplier Volume Allocation Group (SVG) for LLFs approvals.

<sup>8</sup> The BSC Panel is established and constituted pursuant to and in accordance with section B of the BSC.

- when an error is identified within a BSC year<sup>9</sup> such changes could be back dated to the start of the BSC year (1 April) for which they have been approved;
- changes can be back dated to 1 April 2010 for any material manifest errors identified before 1 April 2011 (which is before the implementation of P261); and
- any retrospective changes would require Panel approval

The BSC Panel considered that these changes to correct the P216 legal text would reduce the risk of confusion in the application of the BSC rules and promote efficiency in the administration and implementation of the trading arrangements.

### **BSC Panel recommendation**

The BSC Panel unanimously recommended implementation of the Proposed Modification P261 at its meeting on 8 July 2010.

### **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 8 July 2010. The Authority has also considered and taken into account the responses to Elexon's consultation, which are attached to the FMR<sup>10</sup>. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the BSC<sup>11</sup>; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties<sup>12</sup>.

### **Reasons for the Authority's decision**

We note, and agree with, the unanimous view of the Panel and those Parties who expressed a view that the modification proposal should be made as it will better facilitate relevant object (d). We do not consider the other relevant objectives are applicable to this modification.

*Objective (d) – promoting efficiency in the implementation and administration of the balancing and settlement arrangements*

We agree with the BSC Panel and respondents to the report consultation that the BSC does not correctly reflect principle 15 as approved by P216. As a result, the BSC does not allow the Panel to correct material manifest errors going back to the start of a BSC year.

We recognise the inconsistency between the BSC and BSCP128, which allows retrospective changes to correct material manifest errors, may cause confusion when calculating LLFs.

The Authority is satisfied it was always the intention to include principle 15 in the P216 legal text as we acknowledge the inclusion of all the specific principle in the P216

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<sup>9</sup> A BSC year represents a standard regulatory year, 1 April to 31 March

<sup>10</sup> BSC modification proposals, modification reports and representations can be viewed on the Elexon website at [www.elexon.com](http://www.elexon.com)

<sup>11</sup> As set out in Standard Condition C3(3) of NGET's Transmission Licence, see:

[http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=4151](http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151)

<sup>12</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

Assessment Report, Final Modification Report. We furthermore note all 16 principles, including principle 15, were appended to the Authority decision letter for P216.

Prior to making its recommendation, the Panel discussed the merits of being able to carry out adjustments to LLFs within year. We are also satisfied that this was properly considered as part of our decision on P216, stating in our decision letter that:

"We generally consider that it is important for suppliers to have certainty and that frequent within year adjustments should be avoided. However, we also consider that costs should be allocated as accurately as possible. In the context of site specific adjustments, there may be less of an impact to the relevant suppliers and ultimately customers if adjustments are gradually made as necessary, rather than stored up and resulting in a step change in charges the following year".

We also note that the correction of any errors which are identified in the BSC year 2010/11 may be backdated to 1 April 2010, prior to the implementation of this proposal. Whilst we do not ordinarily consider it is appropriate for modifications to have such retrospective effect, this modification is simply bringing the BSC into line with what should have been standard practice following the implementation of P216, as correctly set out in BSCP128. We also note that retrospective correction of manifest errors will require the approval of the Panel, which should ensure changes to LLFs only occur where appropriate.

The aim of this proposal is to improve the transparency of the BSC. Correcting the identified omission should reduce the risk of misinterpretation, therefore increasing the efficiency of the arrangements underlying the code as well. This should ultimately facilitate the achievement of relevant objective (d).

### **Decision notice**

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal BSC P261: 'Correcting an omission in the BSC arising from the P216 Alternative Modification legal text' be made on 19 August 2010.

**Rachel Fletcher**  
**Partner, Distribution**

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