



Transmission licensees,
generators, suppliers, BSC Panel,
consumer groups and any other
party who has an interest in the
transmission arrangements.

*Promoting choice and value for
all gas and electricity customers*

11 March 2011

Dear Colleague

Seasonal zonal transmission losses proposals (P229) – Publication of consultants' reports

Today we are publishing three consultants' reports that we commissioned on the proposals to introduce seasonal zonal transmission losses (BSC modification P229). We commissioned these reports to inform our assessment of the proposals. We are publishing the reports for information only at this stage, in advance of our impact assessment consultation on the proposals.

Background

P229 was raised by RWE in November 2008. It seeks to amend the Balancing and Settlement Code (BSC) to change the way that losses¹ on the transmission system are allocated amongst generators and suppliers. The final modification report on P229 was submitted by the BSC Panel (the Panel) to Ofgem for decision in March 2010. We informed the Panel on 8 December 2010 of our intention to carry out an impact assessment on the proposal and its alternative before making our decision.

Project TransmiT

In September 2010 we launched our independent review of transmission charging and associated connection arrangements, Project TransmiT². Amongst other things, our review will consider whether the principles on which the current transmission charges are derived remain fit for purpose given the new and emerging challenges that the energy sector faces.

As noted in previous assessment work by the industry and ourselves, the way transmission losses are allocated interacts with how other costs incurred in transmission are charged out. We consider that there may well be interactions between some of the issues that we will consider in the context of an impact assessment on P229, and the issues that we are considering in Project TransmiT.

In light of this, we consider that it may be prudent to carry out our impact assessment on P229 after the initial stages of TransmiT are complete to allow us to take into account any relevant interactions. In advance of issuing an impact assessment we consider that it is

¹ Transmission losses are the amounts of energy that are lost (e.g. in the form of heat) through the process of transmitting electricity from generators to centres of demand.

² <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Networks/Trans/PT>

helpful to publish the consultants' reports that have we commissioned to inform our assessment of the proposals.

The Reports

The reports review and build on the assessment carried out on behalf of the industry working group, by consultants London Economics and Ventyx (LE/Ventyx), prior to P229 being submitted to the Authority for a decision.

Review of Cost Benefit Analysis (Lot 1) which looks at the work undertaken by LE/Ventyx including the appropriateness of the terms of reference, methodology and assumptions, the robustness of the results and conclusions.

Additional Scenario Analysis (Lot 2) models two additional scenarios which we considered to be important, but that were not undertaken in the original LE/Ventyx work.

Additional Analysis (Lot 3) of the results of both the original LE/Ventyx work and the new scenarios modelled in Lot 2.

Next Steps

The next stage of this process is for us to issue an impact assessment on P229 and its alternative. At this stage, we intend to issue an impact assessment in early summer. We currently expect to be in a position to make a decision on the P229 proposals in line with the timescales set out in the P229 Final Modification Report.

If you have any queries regarding the information contained within this letter please contact Sheona Mackenzie at Sheona.mackenzie@ofgem.gov.uk in the first instance.

Hannah Nixon
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