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10 August 2006

**Proposed new Balancing and Settlement Code modification P203 'Introduction of a Seasonal Zonal Transmission Losses Scheme'**

On 26 May 2006 Ofgem issued a letter<sup>1</sup> in response to a request from the Balancing and Settlement Code ("BSC") Panel to indicate whether the Authority intends to undertake an impact assessment in accordance with section 5A of the Utilities Act 2000 (the "UA") in respect of BSC Modification Proposal P198 'Introduction of a Zonal Transmission Losses Scheme'. Ofgem has been requested to provide a similar indication in respect of BSC Modification Proposal P203 'Introduction of Seasonal Zonal Transmission Losses Scheme'.

This letter confirms that Ofgem considers Modification Proposal P203 (as currently drafted) to be "important" for the purposes of Section 5A of the UA. Where section 5A applies the Authority must either undertake an impact assessment or publish a statement setting out reasons why the Authority thinks it is unnecessary for it to carry out such an assessment. Section 5A of the UA does not apply if the urgency of the matter makes it impracticable or inappropriate for the Authority to comply with the requirements of that section.

On the basis of the information we have available to us currently, we anticipate that the Authority will undertake an impact assessment before it makes a decision on Modification Proposal P203. It would, therefore, be prudent for the BSC Panel and the P203 Modification Group, in considering and setting proposed implementation timescales, to assume that the Authority will undertake an impact assessment in respect of Modification Proposal P203.

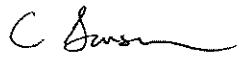
The letter of 26 May 2006 made a similar statement in respect of Modification Proposal P198, and on the basis of the information currently available to us this position in relation to Modification Proposal P198 remains unchanged.

Ofgem is today issuing similar statements in respect to BSC Modification Proposal P200 and BSC Modification Proposal P204, to which this principle also applies. It should be noted that Ofgem may combine the impact assessment process for some or all of the related Modification Proposals if Ofgem deems it appropriate.

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<sup>1</sup> Proposed new Balancing and Settlement Code modification P198 'Introduction of a Zonal Transmission Losses Scheme' – 26 May 2006, Ofgem, #89/06





Colin Sausman  
**Ofgem**

Direct Dial: 020 7901 7339  
Email: [colin.sausman@ofgem.gov.uk](mailto:colin.sausman@ofgem.gov.uk)