



Making a positive difference
for energy consumers

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Date: 15 May 2014

Dear Colleague,

Direction to National Grid Electricity Transmission plc in relation to the Electricity Balancing Significant Code Review

On 15 May 2014 the Gas and Electricity Markets Authority (the Authority) published its conclusions¹ to the Electricity Balancing Significant Code Review (EBSCR). This is our review of the balancing and cash-out arrangements in Great Britain. In that document, the Authority states it is issuing two directions to National Grid Electricity Transmission plc (NGET) to give effect to these conclusions. The terms of the Authority's directions are set out in the associated documents published alongside this letter.

Publishing these directions signals the end of the EBSCR and initiates an industry-led process to implement our conclusions via the Balancing and Settlement Code (BSC), and to identify where further consequential modifications to other industry codes may be necessary.

Industry will decide the manner and timing of the code modification process. We strongly encourage industry to expedite the code modification process and submit a final BSC modification report, with the required justification and evidence, according to the timelines below, to make sure the full benefits are brought about as soon as possible. We draw your attention to our robust and comprehensive evidence base and to the public consultations and stakeholder engagement we have conducted (such as through the expert Technical Working Group) over the past two years. We encourage you to use this evidence base², knowledge and expertise to assist timely delivery.

We strongly recommend the delivery of EBSCR proposals by industry to provide for:

- introducing an early Price Average Reference (PAR) change by winter 2014/15³ to counteract a potential further tightening of margins during this period.
- implementing the first phase of the complete EBSCR package by early winter 2015/16 and the second phase of the complete EBSCR package by early winter 2018/19.

¹ The EBSCR Final Policy Decision, published on www.ofgem.gov.uk on 15 May 2014

² This includes the informal Business Rules that accompany the EBSCR conclusions which, in particular, contain a detailed proposal to implement the Value of Lost Load policy.

³ Where reference is made to early winter 20XX/YY in this document and in the Directions, this indicates implementation through ELEXON's BSC change process in the 'November 20XX BSC Systems Release'.

We strongly recommend that industry progresses the proposals according to these timelines to:

- give industry certainty for other complementary market reforms, such as the capacity auctions for the delivery of the Electricity Market Reform (EMR) Capacity Market (CM)
- help alleviate possible tight margins in advance of the introduction of the CM
- help industry adapt to the new arrangements through a phased approach, and so that the new arrangements are in place ahead of the first delivery year of the CM.

The Authority will make a final decision on BSC changes after the Final Modification Report has been submitted by the BSC Panel.

If you wish to discuss any aspect of this letter or associated documents, please contact EBSCR@ofgem.gov.uk.

Yours faithfully

Emma Kelso
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