

20 November 2001

MODIFICATION REPORT
MODIFICATION PROPOSAL P25 –
Commissioning Status in NETA

Prepared by ELEXON on behalf of the Balancing
and Settlement Code Panel

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II CONTENTS TABLE

I	Document Control.....	2
a	Authorities.....	2
b	Distribution.....	2
c	Intellectual Property Rights and Copyright.....	2
II	Contents Table	3
1	Summary and Recommendations	4
1.1	Recommendation.....	4
1.2	Background.....	4
1.3	Rationale for Recommendations.....	4
2	Introduction.....	6
3	Purpose and Scope of the Report	7
4	Description of Proposed Modification.....	8
5	History of Proposed Modification.....	9
6	Assessment	10
6.1	Assessment against Applicable BSC Objectives	10
6.2	BSC Agent Impact Assessment	11
6.3	BSC Party Impact Assessment	11
7	Rationale for Panel Recommendations	12
8	Legal Text to Give Effect to the Proposed Modification.....	13
9	Summary of Representations.....	14
Annex 1	– Representations	15

1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase, and the resultant findings of this report, the BSC Panel recommends to the Authority that:

- (i) The Proposed Modification, as defined by the Modification Group in the Definition Report, be rejected; and
- (ii) The Alternative Modification, as developed by the Modification Group and defined in the Assessment Report, be rejected.

1.2 Background

Modification Proposal P25 was submitted by BP Gas & Marketing on 25 June 2001, proposing the BSC be modified such that plant which could be deemed to be commissioning would be provided with relief from energy imbalance charges. It was argued by the Proposer that the inevitably larger exposure to imbalance prices of BM Units comprising commissioning plant constituted a barrier to entry. Reducing or removing this exposure, it was argued, would thus reduce this barrier to entry, and hence promote competition in the generation of electricity.

An Initial Written Assessment was considered by the BSC Panel on 12 July, which directed that the Proposal should proceed through the Definition phase. A Definition Report was considered by the Panel on 23 August 2001 and the Proposal subsequently proceeded to the Assessment phase for report to the Panel on 18 October 2001.

During the Assessment Phase, the Modification Group developed an Alternative Modification. This achieved the same effects as the Proposed Modification, with only minor differences, but minimised the impact on settlements systems. Consequently, the Modification Group recommended that the Proposed Modification should be rejected in favour of the Alternative Modification. The Modification Group was unable, however, to reach an unambiguous conclusion as to whether this Alternative Modification better facilitated the achievement of the Applicable BSC Objectives. Furthermore, the Modification Group considered that it was unlikely to reach such a view, and accordingly recommended to the Panel that the Modification should not be returned to the Modification Group for further assessment and, instead, proceed to the Report Phase.

The Assessment Report was considered by the BSC Panel on 18 October 2001. The Panel accepted the recommendations of the Modification Group that the Proposed Modification should proceed to the Report Phase and that the Panel should recommend that the Proposed Modification should be rejected. The Panel noted the split views of the Modifications Group and further agreed to recommend to the Authority that the Alternative Modification should also be rejected.

A draft of this Modification Report was consulted upon and considered, along with the consultation responses by the BSC Panel on 15 November 2001. The Panel approved the report subject to amendments which are incorporated in this issue.

1.3 Rationale for Recommendations

Of the Proposed Modification and the Alternative Modification, the Modification Group had concluded that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives to

the same degree as the Proposed Modification, but would be quicker and less costly to implement. To the extent that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives, in enabling that earlier, the Alternative thus would even better facilitate achievement of the Applicable BSC Objectives, as compared with the Proposed Modification. Hence, the Modification Group had recommended that the Panel should reject the Proposed Modification in favour of the Alternative Modification. The Panel agreed with this recommendation, and, accordingly, recommended that the Proposed Modification be rejected.

Furthermore, the Panel agreed to recommend, that the Alternative Modification be rejected. The Panel noted that the Modification Group had been unable to reach a unanimous conclusion regarding the Alternative Modification, and decided to recommend that it should be rejected on the grounds that the relief from energy imbalance charges provided by the Alternative Modification constituted a cross-subsidy to one class of BSC Parties at the expense of other BSC Parties. The Panel considered that such a cross-subsidy would be discriminatory, and that hence the Alternative Modification (and by implication the Proposed Modification also) would not promote *“effective competition in the generation and supply of electricity, and (so far as consistent therewith) ... such competition in the sale and purchase of electricity”*. Other points made by the BSC Panel were:

- If some members of the Modification Group believed that the System Sell Price and System Buy Price was calculated unfairly, then they were free to submit a Modification Proposal specifically to cover this issue;
- That whilst a commissioning generator was exposed to considerable risk if it chose to contract and risk exposure to SBP, it had the option not to contract and take SSP for its spill, which was far less risky;
- The Proposal was discriminatory; it did not propose to extend the status to embedded generators and the demand side had not been taken into account;
- This would counter the purpose of the market which was to incentivise Parties to contract out;

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel (‘the Panel’), in accordance with the terms of the Balancing and Settlement Code (‘BSC’). The BSC is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the BSC.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority (‘the Authority’) and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC website, at www.elexon.co.uk

3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as ‘Modification Proposals’). These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

A Modification Report must be prepared and submitted to the Authority in respect of each proposed modification and must contain:

- (a) The recommendation of the Panel as to whether or not the Proposed Modification or any Alternative Modification should be made;
- (b) The proposed Implementation Date for implementation of the Proposed Modification or any Alternative Modification;
- (c) The matters set out in Annex F-1 of the BSC. This will usually be in the form of the relevant Assessment Report where the Proposal has been submitted to a Modification Group prior to the Report Phase;
- (d) An explanation of the Panel’s rationale should the Panel form a different view of any matters contained in the Modification Group Report; and
- (e) A summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification.

4 DESCRIPTION OF PROPOSED MODIFICATION

P25, as proposed by BP Gas & Marketing, and as defined by the P25 Modification Group, proposed the introduction into the Balancing & Settlement Code of a Commissioning Status for BM Units, thereby known as “Commissioning BM Units”. This status would be accorded in respect of BM Units satisfying certain qualifying criteria. Commissioning Status would last a year or less in the event that certain “Commissioning Status Exit Criteria” were met. In respect of each Commissioning BM Unit, Trading Parties would nominate that up to 90 Settlement Days be treated as “Commissioning Settlement Days”. On Commissioning Settlement Days, any shortfall (or surplus) against the FPN (as modified by any Accepted Offer or Bid) would be priced at a “Market Price”, derived from prices in publicly-traded markets, rather than the relevant energy imbalance price.

The Modification Proposed also proposed a change to Residual Cashflow Reallocation Cashflow (RCRC). It was suggested that Credit Energy Volume associated with Commissioning BM Units on Commissioning Settlement Days should not count towards the pro-rating of RCRC. This was on the grounds that it is inappropriate that Commissioning BM Units, being immune from exposure to energy imbalance charges, should attract payments arising from the exposure of others.

The Alternative Modification was proposed with the objective of minimising the impact on settlements systems, particularly recognising that the provisions of the Modification would apply to a small number of BM Units, each for a limited duration. Accordingly, the Alternative Modification achieved the required changes in Trading Charges by calculating and effecting changes in the Account Bilateral Contract Volumes of the affected BSC Parties in the affected Settlement Periods. Other differences between the Alternative Modification and the Proposed Modification were that: the change in the allocation of RCRC implicit in the Proposed Modification were, as a necessary simplification, not included in the Alternative Modification; and, at the behest of the Proposer, the retrospective application back to the Go-Live Date, which was a feature of the Modification Proposal, was not included.

5 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P25 was submitted by BP Gas & Marketing 2001 on 25 June 2001. The Proposer requested that the Modification Proposal be treated as an Urgent Modification Proposal. However, ELEXON did not consider that there was any risk of disruption or severe malfunction that could be prevented by the Proposed Modification, if made, and that consequently it was not appropriate to recommend to the Panel that the Modification Proposal should be treated as an Urgent Modification Proposal.

An Initial Written Assessment was considered by the BSC Panel on 12 July, which directed that the Proposal should proceed through the Definition phase. A Definition Report was considered by the Panel on 23 August 2001 and the Proposal subsequently proceeded to the Assessment phase for report to the Panel 18 October 2001.

During the Assessment Phase, the Modification Group considered by correspondence a Requirements Specification that detailed an alternative requirement, which minimised the impact of settlements systems. The Panel had been appraised of the potential for such an alternative when the Definition Report was presented. The Group subsequently met on 5 October 2001 to discuss the assessment against Applicable BSC Objectives of the Proposed Modification, and to decide that the alternative requirement should be presented as an Alternative Modification. The Modification Group was unable, however, to reach an unambiguous decision as to whether this Alternative Modification (or the Proposed Modification) better facilitated the achievement of the Applicable BSC Objectives.

The Assessment Report was considered by the BSC Panel on 18 October 2001. The Panel accepted the recommendations of the Modification Group that the Proposed Modification should proceed to the Report Phase and that the Panel should recommend that the Proposed Modification should be rejected. The Panel noted the split views of the Modifications Group and further agreed to recommend that the Alternative Modification should also be rejected.

Following the Panel meeting, a draft Modification Report was prepared, consulted upon, and the draft Modification Report updated. This draft was then considered by the BSC Panel at its meeting on 15 November 2001, which approved the report subject to revisions as detailed in the BSC Panel minutes.

6 ASSESSMENT

6.1 Assessment against Applicable BSC Objectives

In the Modification Proposal, the Proposer argued that commissioning plant, by dint of its greater exposure to imbalance prices than commissioned plant, potentially could suffer considerable financial loss due to the extreme nature of those prices. This constituted a barrier to entry. The Proposed Modification, by mitigating such exposure would remove this barrier to entry, and would thereby promote effective competition in the generation of electricity.

In preparing the Assessment Report, the Modification Group did not reach a consensus on whether the Proposed Modification or the Alternative Modification would better meet the Applicable BSC Objectives. Nevertheless, the Group concluded as follows:

- (1) If it is considered that the consequences of exposure to imbalance prices reasonably reflected costs imposed on the System by energy imbalances, then there was no basis for supposing that the Proposed Modification or the Alternative Modification would better meet the Applicable BSC Objectives, specifically the promotion of effective competition in generation.
- (2) If, however, it is considered that the consequences of exposure to imbalance prices *did not* reasonably reflect costs imposed on the System by energy imbalances, then, to the extent that commissioning plant was inevitably more exposed to imbalance prices, there was a barrier to entry.
- (3) If (2) then, then there is a case to argue that the imbalance prices were wrong for *all* imbalances incurred by *all* Trading Parties, and that a proper solution might be to modify the imbalance pricing mechanism.
- (4) However, notwithstanding (3), the assessment should be undertaken against the Balancing & Settlement Code as it is drafted, and not against the Code assuming the adoption of some other, as yet unspecified, Modification.

Views diverged on whether the consequences of exposure to imbalance prices, as presently calculated, were reasonable, with three Group members believing that this was the case, whilst four members disagreed. Thus, in this respect, the Modification Group could not reach an unambiguous conclusion as to whether the Alternative Modification (or the Proposed Modification) would better meet the Applicable BSC Objective of, “*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*”.

There was some debate about whether there could be a potential effect on System Operation as a result of spill from commissioning plant onto the System. Presently Trading Parties are likely to prefer to spill rather than contract in respect of commissioning plant, for fear of the consequences of exposure to System Buy Price. Such spill results potentially in the System being long and the Transmission Company consequentially having to accept more Bids, with a possible effect on System Sell Prices. However, a result of the Proposed Modification would have been that Trading Parties with Credited Energy Volumes from Commissioning BM Units would be more likely to contract rather than spill - thereby receiving something akin to Market Price rather than System Sell Price, without risking exposure to System Buy Price – and hence reduce the amount to which the market would otherwise be long. In any case, NGC had indicated to the Modifications Group that it believed that it could accommodate any spill from commissioning plant - which would occur irrespective of whether the

Alternative Modification or Proposed Modification were adopted - either in the balancing mechanism or by forward contracting.

In view of this effect, the Modification Group agreed that the Alternative Modification (and the Proposed Modification) would result in prices better reflecting the balance of supply and demand, and would, in this respect, better meet the Applicable BSC Objective of, “*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*”.

It was recognised that the Proposed Modification did provide some incentive for Commissioning BM Units, which could satisfy the one of the Commissioning Status Exit Criteria¹, not so to do. This could impair, “*the efficient, economic and co-ordinated operation by the Licensee of the Licensee’s Transmission System*”. A counter-view was that it was improbable that plant would be able to commission much in advance of the 90 Commissioning Settlement Days limit, such that this incentive was more a theoretical rather than practical concern.

6.2 BSC Agent Impact Assessment

Assessment by Logica indicated that the Alternative Modification could be developed and implemented at a cost of £134,000, in a period of 11-13 weeks

6.3 BSC Party Impact Assessment

In the request for impact assessment by BSC Parties, only one BSC Party indicated that the Proposed Modification would have any impact on its own systems.

Views of BSC Parties as to whether the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives were expressed during the initial consultation and to some extent, again, during the Impact Assessment. These views were taken into account by the Modification Group in formulating its conclusions.

Details of the Assessment Phase are contained in the Assessment Report, which may be found on the BSC website at www.elexon.co.uk, and which is attached as Annex 2.

¹ One of the Commissioning Status Exit Criteria in the Modification as defined in the Definition Report was the deviations of BM Unit Metered Volume from FPN (as modified by any accepted Offers and Bids) being less than a specified percentage.

7 RATIONALE FOR PANEL RECOMMENDATIONS

Of the Proposed Modification and the Alternative Modification, the Modification Group had concluded that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives to the same degree as the Proposed Modification, but would be quicker and less costly to implement. To the extent that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives, in enabling that earlier, the Alternative thus would even better facilitate achievement of the Applicable BSC Objectives, as compared with the Proposed Modification. Hence, the Modification Group had recommended that the Panel should reject the Proposed Modification in favour of the Alternative Modification. The Panel agreed with this recommendation, and, accordingly, recommended that the Proposed Modification be rejected.

In deciding to recommend that the Alternative Modification, too, should be rejected, the Panel noted that the Modification Group had been unable to reach a unanimous conclusion regarding the Alternative Modification. The Panel decided to recommend that the Alternative Modification should be rejected on the grounds that the relief from energy imbalance charges provided by the Alternative Modification constituted a cross-subsidy to one class of BSC Parties at the expense of other BSC Parties, concurring with the view expressed by a number of Parties in the initial consultation. The Panel considered that such a cross-subsidy would be discriminatory and would distort competition, and that hence the Alternative Modification (and by implication the Proposed Modification also) would not promote *“effective competition in the generation and supply of electricity, and (so far as consistent therewith) ... such competition in the sale and purchase of electricity”*.

Other points made were:

- If some members of the Modification Group believed that the System Sell Price and System Buy Price was calculated unfairly, then they were free to submit a Modification Proposal specifically to cover this issue;
- That whilst a commissioning generator was exposed to considerable risk if it chose to contract and risk exposure to SBP, it had the option not to contract and take SSP for its spill, which was far less risky;
- The Proposal was discriminatory; it did not propose to extend the status to embedded generators and the demand side had not been taken into account;
- This would counter the purpose of the market which was to incentivise Parties to contract out;

8 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

In view of the recommendation of the Panel to recommend to the Authority that both the Modification and Alternative Modification Proposal should be rejected , the Panel has consulted with the Authority, and the Authority has agreed that proposed text to modify the Code need not be commissioned for inclusion in the Modification Report.

9 SUMMARY OF REPRESENTATIONS

Eight responses were received to the consultation on the draft Modification Report, and can be found in Annex 1. Seven responses supported the Panel's decision to recommend to the Authority that the Modification should be made, whilst one response disagreed with the decision.

Of the responses supporting the Panel decision, five noted the Panel's conclusion that the Proposed Modification would constitute a cross-subsidy of one set of BSC Parties at the expense of others. One respondent was unhappy with a Modification mitigating imbalance prices when there were other Modifications being considered that would affect these. One respondent argued that a potential materiality of £5m to £10m would be small compared to the costs of constructing a power station, whilst another noted that this would be only one of many costs taken into account when deciding whether to enter the market.

The response disagreeing with the Panel decision, highlighted that the Modifications Group had unanimously concluded that, the decision on whether the Proposed Modification better facilitated the BSC objectives rested on whether the consequences of exposure to imbalance prices did or did not reasonably reflect costs that are imposed on the System by energy imbalances. However, the respondent felt the Panel had not taken its decision on this basis. The respondent also observed that the Panel had cited cross-subsidy and discrimination as the basis for not making the Modification, but that this argument had been considered by the Modifications Group and had been dismissed.

ANNEX 1 – REPRESENTATIONS

Responses from P25 Modification Report Consultation

Representations were received from the following parties:

No	Company	File Number
1.	BP Gas & Power	P25_MR_001
2.	SEEBOARD	P25_MR_002
3.	TXU Europe Energy Trading Ltd	P25_MR_003
4.	British Energy	P25_MR_004
5.	ScottishPower UK Plc	P25_MR_005
6.	London Electricity plc	P25_MR_006
7.	British Gas Trading	P25_MR_007
8.	Powergen UK plc	P25_MR_008

P25_MR_001 – BP Gas & Power

Thank you for your invitation to comment on the P25 Draft Modification Report.

As the proposer of this modification we are very disappointed with the BSC Panel's decision that the Alternative Modification, as developed by the Modification Group and defined in the Assessment Report, should not be made.

Based on the unanimous support of the Modifications Group, the Assessment Report asked The Panel to make their decision as to whether P25 better facilitated the objectives of the BSC on the basis of if the consequences of exposure to imbalance prices did or did not reasonably reflect costs imposed on the System by energy imbalances (Section 5.3 of the Assessment Report).

The BSC Panel did not make their decision on this basis.

The BSC Panel argued against the Modification on the basis of a number of other issues, including discrimination (as noted in the Modification Report), all of which had been discussed by the Modifications Group. However the Modifications Group all agreed that these issues were not of significance and that the point on which the Modification should be supported or rejected was the consequence of exposure to imbalance prices, as referred to above.

Section 26 of the Government Response to Ofgem's Reports on NETA (November 2001) states that the "Government's preliminary view is that the key to improving the market for all participants, but particularly smaller generators, is to seek to ensure that energy imbalance prices remain consistent with cost reflective principles." This suggests that the Government believe that the consequences of exposure to imbalance prices do not reasonably reflect costs imposed on the System by energy imbalances.

Given the materiality of this modification (as highlighted in Section 5.3.1 of the Assessment Report) we are disappointed that the BSC Panel did not take the advice of the experts that constituted the Modifications Group and make their decision on the basis of the consequences of exposure to imbalance prices.

We hope that The Authority will note the points above.

Yours sincerely,

Mark Simons
BP Gas & Power

P25_MR_002 – SEEBOARD

With respect to the above mentioned modification proposal, entitled "Commissioning Status in NETA". We agree with recommendations in modification report dated 29th October 2001 that this modifications proposal should not be made.

Dave Morton
SEEBOARD
0190 328 3465

P25_MR_003 – TXU Europe Energy Trading Ltd

Thank you for the opportunity to respond to the above modification report. TXU Europe Energy Trading (on behalf of all TXU Europe companies) support the recommendation that both the proposed modification and the alternative should be rejected.

Regards
Nicola Lea
Market Development Analyst
TXU Europe Energy Trading Ltd

P25_MR_004 – British Energy

British Energy support the recommendation of the BSC Panel on 18th October 2001 that both the modification proposal and the alternative proposal should be rejected.

We support the opinion ascribed to the Panel in the consultation draft report, that "relief from energy imbalance charges provided by the Alternative Modification constituted a cross-subsidy to one class of BSC Parties at the expense of other BSC Parties. The Panel considered that such a cross-subsidy would be discriminatory, and that hence the Alternative Modification (and by implication the Proposed Modification also) would not promote "effective competition in the generation and supply of electricity, and (so far as consistent therewith) ... such competition in the sale and purchase of electricity"."

Rachel Ace
for
British Energy Power & Energy Trading Ltd
British Energy Generation Ltd
Eggborough Power Ltd

P25_MR_005 – ScottishPower UK Plc

On behalf of ScottishPower UK Plc, Manweb Plc and Emerald Power Ltd. I would like to thank you for this opportunity to comment on the Draft Modification Report for P25 - Commissioning Status in NETA.

We have considered the views expressed by the Modification Group in respect of P25 and also followed the debate at the Panel. We would agree with the conclusion reached by the Panel that this proposal and its alternative both fail to meet the Applicable BSC Objectives, specifically, that they do not promote effective competition in the trading arrangements, as there is a great risk of cross-subsidising a small class of BSC Parties by excluding them from imbalance price exposure.

Should you wish to discuss these comments further, please do not hesitate to contact me.

James Nixon
Design Authority, Deregulation Services
Calanais Ltd for ScottishPower & Manweb
Int - 700 2316 Ext - 0141 568 2316
<http://asg.scottishpower.plc.uk> <<http://asg.scottishpower.plc.uk/>>
(Intranet)

P25_MR_006 – London Electricity plc

Many thanks for the opportunity to comment on the draft modifications report on mod P25.

"The proposer argued that commissioning plant, by dint of its greater exposure to imbalance prices than commissioned plant, potentially could suffer considerable financial loss due the extreme nature of those prices" - our comment on this would be that this is quite correct.

However, we do agree with the findings of the panel that Mod P25 is not the best way to deal with this issue, as it does not better facilitate the objectives of the code and introduces perverse incentives relating to improvements in the performance of commissioning plant. We also note that the modifications group did spend a considerable amount of time attaching a materiality to the commissioning imbalance cost of commissioning plant of a typical (modern CCGT type) size, and came up with only £5 to £10m based on typical historic imbalance prices and commissioning output uncertainties; this is not as large as might have been guessed at, and is not that large in relation to the total construction and financing costs of an 800 MW CCGT. We suggest that this finding ought to be included within the draft report.

We note from informal feedback from the mods group that the group simply did not have sufficient time or resource to think fundamentally about this issue and develop a significantly different alternative proposal. Consequently, the alternative proposal differs only in respect of its non-retrospectivity (at the proposer's request), and in implementational respects that are designed to reduce the systems costs of achieving the basic effects of Mod 27. This is due to limited total resources in both the industry and Elexon to deal with the large number of modifications in process at present.

We note the panel's conclusion that the relief from energy imbalance charges provided by the Alternative Modification constituted a discriminatory cross-subsidy to one class of BSC Parties at the expense of other BSC Parties. We also note that the panel's view that the proposed modification provided an incentive for commissioning BM Units, which could satisfy the one of the Commissioning Status Exit Criteria (errors in output vs FPN), not so to do, so as to continue benefitting from the provisions of P27. This could impair, "the efficient, economic and co-ordinated operation by the Licensee of the Licensee's Transmission System".

We agree with the panel's findings.

Yours sincerely,
Liz Anderson

(London Electricity plc on behalf of itself, SWEB Ltd, Sutton Bridge Power and Jade Power Generation)

P25_MR_007 – British Gas Trading

Thank you for the opportunity of responding to this modification proposal. British Gas Trading (BGT) do not support this modification proposal or its alternative as better facilitating the Applicable BSC Objectives.

BGT acknowledge the argument that the high imbalance prices currently being experienced may act as a disincentive to the development of new plant and could conceivably constitute a barrier to entry. However, we do not agree that protecting one section of the industry will promote competition overall and so suggest that this then fails to meet Applicable BSC Objective c) as suggested. Also, imbalance prices are only one of many issues to be taken into account when a new project is being considered. It is unlikely that a project will stand or fall on the basis of imbalance prices alone. We would also argue that there is no guarantee that new plant will be commissioned by new entrants as opposed to existing Parties.

We support the view of the Panel that the proposal will cross subsidise on class of BSC Party at the expense of others. BGT do not believe it is not appropriate to favour one section of the market over others. This distorts the market and acts against Applicable BSC Objective c).

We are also unhappy with a modification that seeks to mitigate the effect of imbalance prices when there are past and current modifications that are considering imbalance prices. Once the impact of these modifications have been felt the penalties associated with imbalance should be reduced.

Yours faithfully
Danielle Lane
Transportation Analyst

P25_MR_008 – Powergen UK plc

Thank you for giving us the opportunity to comment on this proposal. Powergen UK plc ('Powergen') provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited and Cottam Development Centre Limited.

Powergen supports the Panel's recommendation that both the proposed modification and alternative modification are **not implemented** as outlined in the Modification Report.

Powergen continues to believe that implementing either of the proposals would be discriminatory as they would result in a cross-subsidy of one class of BSC Party at the expense of other BSC Parties. Therefore the applicable BSC objectives would not be met.

Regards
Chris Price
Strategy & Regulation
Powergen UK Plc

ANNEX 2 – ASSESSMENT REPORT

See Attachment 1.