

## Responses from P204 Report Phase Consultation

Consultation Issued 19 October 2006

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	SmartestEnergy Ltd	P204_dMR_01	1	0
2.	Centrica	P204_dMR_02	9	0
3.	Alcan Smelting and Power UK	P204_dMR_03	0	1
4.	RWE Trading GmbH	P204_dMR_04	11	0
5.	BizzEnergy Limited	P204_dMR_05	1	0
6.	Good Energy Ltd	P204_dMR_06	1	0
7.	SAIC Ltd. (for and on behalf of ScottishPower)	P204_dMR_07	6	0
8.	Uskmouth Power Limited	P204_dMR_08	1	0
9.	E.ON-UK Energy Services Limited	P204_dMR_09	0	1
10.	National Grid	P204_dMR_10	1	0
11.	British Energy	P204_dMR_11	5	0
12.	Scottish and Southern Energy	P204_dMR_12	5	0
13.	EDF Energy	P204_dMR_13	9	0

## P204 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

<b>Respondent:</b>	<i>Colin Prestwich</i>
<b>Company Name:</b>	<i>SmartestEnergy Ltd</i>
<b>No. of BSC Parties Represented</b>	<i>1</i>
<b>Parties Represented</b>	<i>SmartestEnergy Ltd</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	<i>None</i>
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	<i>(Supplier/ Trader / Consolidator)</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	No	The Panel appear to have rejected this mod on the grounds that you either believe in marginal arrangements or not. We continue to believe this modification improves efficiency and competition in the industry without going so far as to create barriers to entry (which other losses modifications would do). In other words the effects of P204 strike the right balance between the need for more economical despatch and not creating a dramatic "winners and losers" situation.  The Panel also seem to have rejected this modification on the grounds that it is complex (and may even be suffering from losses mod fatigue!) But just because something is complex does not mean that it is not the correct thing to do.

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	
4.	Are there any further comments on P204 that you wish to make?	No	

Please send your responses by **12 noon on Friday 27 October 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Justin Andrews on 020 7380 4364, email address [justin.andrews@elexon.co.uk](mailto:justin.andrews@elexon.co.uk).

## P204 REPORT PHASE CONSULTATION QUESTIONS

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<b>Respondent:</b>	<i>Dave Wilkerson</i>
<b>Company Name:</b>	Centrica
<b>No. of BSC Parties Represented</b>	9
<b>Parties Represented</b>	Accord Energy Ltd; British Gas Trading Ltd; Centrica Barry Ltd; Centrica Brigg Ltd; Centrica KL Ltd; Centrica KPS Ltd; Centrica PB Ltd; Centrica RPS Ltd; Centrica SHB Ltd
<b>No. of Non BSC Parties Represented</b>	–
<b>Non Parties represented</b>	–
<b>Role of Respondent</b>	<i>(Supplier/Generator/ Trader)</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response	Rationale
1.	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.</p>	Yes	<p>As noted in our responses to previous consultations, Centrica does not believe that P204 better facilitates any of the BSC Objectives. We believe that any perceived benefits are far outweighed by the inappropriate large cash transfers between Parties, based on nothing more than historic investment decisions made well before the introduction of any zonal losses scheme.</p> <p>We also believe that these perceived benefits have been greatly overstated. The redespach benefits assumed by Oxera are unlikely to be realised in practice, and there are already sufficient long-term investment signals in place via TNUoS charging. We also note with particular interest National Grid's view that zonal losses allocation will have no effect on the reduction of total transmission system losses.</p> <p>There is a further view expressed by National Grid in the recent 'Charging Condition 2 Final Report<sup>1</sup>', which relates to the TNUoS charging methodology but which can also be seen to be entirely applicable to zonal transmission losses. The view expresses the difference between the fixed element of TNUoS and the variable element, and states that:</p> <p>"..the locational element of the charge is intended to be a forward-looking signal and represents the cost of providing an additional MW of capacity. Separate to this, the residual or flat element (that is not locational) deals with the historical commitments or sunk costs...<b>National Grid does not believe a methodology where the locational signal is based largely on historic commitments would result in efficient investment or be cost reflective of future investment.</b>"</p> <p>We would agree that an attempt to provide a locational investment signal via a methodology that simultaneously penalises historic investments is entirely inappropriate, and on this basis we cannot support P204.</p>

<sup>1</sup> <http://www.nationalgrid.com/NR/rdonlyres/C2C4143B-3DB3-4D48-97C3-C3B1EC69CB0A/11670/Condition2finalreport.pdf>

Q	Question	Response	Rationale
2	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	
3	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P204 that you wish to make?	Yes	<p>We note that a number of Panel members did not wish to express a preference as to the 'least worst' option of all the transmission losses modifications, as they may have felt that this would indicate support for zonal losses in principle. At previous Panel meetings, however, they did express a ranking preference for P198, P200 and P203.</p> <p>In the modification group, those who opposed all of the zonal losses modifications still expressed a very strong opinion that P204 was the 'least worst' above P198, P200 and P203, as it does significantly dilute the cash transfers compared to the other losses modifications.</p> <p>It would be helpful to the industry and to the Authority in their decision-making process if all Panel members indicated which losses modification was their 'least worst' option. This would not have any bearing on the validity of their voting as to whether any of the losses mods better achieved the BSC Objectives, nor would it be at all inconsistent with a vote to reject P204. To abstain at this point would have the potential to give an inappropriate signal to the Authority regarding the preferences of the industry and the Panel.</p>

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## P204 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

<b>Respondent:</b>	<i>Bob Nicholson</i>
<b>Company Name:</b>	<i>Alcan Smelting and Power UK</i>
<b>No. of BSC Parties Represented</b>	<i>0</i>
<b>Parties Represented</b>	<i>n/a</i>
<b>No. of Non BSC Parties Represented</b>	<i>1</i>
<b>Non Parties represented</b>	<i>Alcan Smelting and Power UK</i>
<b>Role of Respondent</b>	<i>Other – Licence Exempt Embedded Generator</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
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Q	Question	Response	Rationale
1.	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.</p>	<p><b>Yes / No</b></p>	<p>Alcan agrees with the Panel's recommendation that P204 should not be made. Alcan does not believe that the modification would better facilitate the achievement of the BSC objectives:</p> <ul style="list-style-type: none"> <li>▪ <b>Applicable BSC Objective (b) – The efficient, economic and co-ordinated operation of the GB transmission system</b></li> </ul> <p>Alcan cannot respond to the heightened economic signals provided by locational losses whilst maintaining the enhanced security of supply required by its smelters (that is the rationale for Alcan's ownership of power stations). We therefore do not believe that the anticipated efficiency improvements modelled by Oxera will materialise in practice.</p> <ul style="list-style-type: none"> <li>▪ <b>Applicable BSC Objective (c) – Promoting effective competition in the generation and supply of electricity</b></li> </ul> <p>We believe that the introduction of a zonal charging mechanism for transmission losses will lead to a substantial redistribution of wealth between parties for little or no economic benefit – leading to windfall gains and losses in the industry.</p> <p>Alcan located at its sites in North West Scotland in the early 20<sup>th</sup> Century and in North East England in the 1970s, long before electricity liberalisation and any notion of locational charging. Unlike portfolio generators investing in new plant and managing despatch from plants across the UK, Alcan's investment in aluminium smelters and associated power stations cannot be revised at the whim of short term pricing signals. Independent industrial generators are less able to respond to these signals than portfolio players and will be disadvantaged by locational signals.</p> <p>[Continued overleaf]</p>

Q	Question	Response	Rationale
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made?</p> <p>...continued</p>		<p>[Continued from previous page]</p> <ul style="list-style-type: none"> <li>▪ <b>Applicable BSC Objective (d) – Promoting efficiency in the implementation and administration of the balancing and settlement arrangements</b></li> </ul> <p>We believe that the proposed modification would add cost and complexity to the balancing and settlement arrangements, both in the central systems but more specifically in each participants systems and would lead to an overall loss of efficiency</p>
2.	<p>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.</p>	Yes / No	
3.	<p>Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.</p>	Yes / No	No comment

Q	Question	Response	Rationale
4.	Are there any further comments on P204 that you wish to make?	Yes / No	<p>Alcan agrees with the Panel's assessment that parties see P204 is the 'least bad' of the alternative zonal transmission losses modifications being considered, and with the Panel's assessment that most parties would prefer the status quo. To support this Alcan has expressed its preference for the transmission losses modifications below (our most preferred option is listed below as 1 and our least preferred option as 7):</p> <ol style="list-style-type: none"> <li>1. Current BSC (uniform charging)</li> <li>2. P204 (Scaled zonal transmission losses)</li> <li>3. P198 Alternate (Seasonally varying zonal charging with linear phased introduction)</li> <li>4. P200 Alternate (Seasonally varying zonal charging with hedging/phased introduction)</li> <li>5. P200 (Annually assessed zonal charging with hedging/phased introduction)</li> <li>6. P198 (Annually assessed zonal charging from 1 April 2008)</li> <li>7. P203 (Seasonally varying zonal charging from 1 April 2008)</li> </ol> <p><b>Relevant background on Alcan</b></p> <p>Alcan operates its own power stations purely to provide the high level of security of supply that its smelters require (and which cannot be provided from the public system). The operation of Alcan's power stations will be unaffected by the introduction of zonal losses, as our priority will continue to be security of supply. Therefore the introduction of zonal charging for losses is not a signal Alcan can respond to, and there will be no benefit to the system from imposing this cost on Alcan.</p> <p>A move to zonal charging for losses would increase Alcan's costs. However, unlike other parties within the UK power sector, Alcan cannot pass these costs through to its consumers. Alcan competes in the international aluminium market, a highly competitive global commodity market, where its cost base does not determine market prices.</p>

Q	Question	Response	Rationale
	Are there any further comments on P204 that you wish to make?  ...continued		[Continued from previous page]  The zonal charging of losses will also create greater uncertainty and make expansion of our UK smelting facilities difficult, in particular where further generation is required and less security is evident.

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<b>Respondent:</b>	<i>Bill Reed</i>
<b>Company Name:</b>	RWE Trading GmbH
<b>No. of BSC Parties Represented</b>	11
<b>Parties Represented</b>	<i>Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant). RWE Trading GmbH, RWE Npower plc, Great Yarmouth Power Ltd, Npower Cogen Trading Ltd, Npower Commercial Gas Ltd, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd</i>
<b>No. of Non BSC Parties Represented</b>	None
<b>Non Parties represented</b>	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributor / other – please state <sup>1</sup>) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	No	We believe that the proposed modification proposal will better meet the BSC objectives. In particular, the proposal will result in more cost-reflective allocation of losses with benefits under Objective B, remove the current distortions that arise under the current arrangements, with benefits for competition under Objective C and remove discrimination with benefits under Objective A.

<sup>1</sup> Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	This a reasonable date given the implementation timescales.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P204 that you wish to make?	No	

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<b>Respondent:</b>	<i>Name</i>
<b>Company Name:</b>	Faye Hankin
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	<i>BizzEnergy Limited</i>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	<i>Supplier</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	Yes	<p><b>We agree with the recommendation that the Proposed Modification should not be made.</b></p> <p>Although we agree that inherent in the uniform allocation of transmission losses is an element of cross-subsidy, this cross-subsidy has a negligible effect as other locational factors far outweigh its influence.</p> <p>This is the fundamental problem with P198/P200/P203/P204.</p> <p>Due to the limited ability of BM units to respond to the Proposed Modification(s), we believe that that the initial effects will be distortionary as windfall gains/losses will result. P204 does not seek to mitigate this effect in any way and in this respect we are extremely concerned about this Proposal.</p> <p>We recognise that the achievement of Applicable BSC Objective (b) may be better facilitated by the Proposed Modification, although the magnitude</p>

Q	Question	Response	Rationale
			of the potential efficiencies remains unproven. We remain concerned that the possibly marginal benefits under (b) would be by far outweighed by the disadvantage under the Applicable Objectives (d) and the even greater detrimental effect on achieving Applicable Objective (c). As a result we believe the overall effect would be detrimental.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	No	A supplier such as BizzEnergy has fixed price customer contracts that are typically of three years in duration. A notice period of less than three years means that existing contracts may have been priced at a loss. Step changes in the cost of supply are extremely damaging for the stand alone supplier that does not have generation assets to offset risk. The longer the implementation time table the less damaging the effect.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P204 that you wish to make?	Yes	<p>A sudden shift in the cost base of suppliers (whether justifiable or not) creates the impression that pricing signals in the market are not fixed. This not only undermines the confidence of potential entrants but also the confidence of consumers.</p> <p>The investment decisions that this sort of proposal seeks to influence are long term. If the perception is that costs are subject to change this not only undermines the effectiveness of the latest modification but also the effectiveness of <b>existing</b> cost messages as they are not seen as fixed.</p> <p>The only conceivable benefits from P198/P200/P203/P204 would be realised under the better facilitation of Applicable Objective (b). As already discussed we feel that the benefits under this objective would be far outweighed by the detrimental effects particularly under (c).</p> <p>We are strongly opposed to P204 and all its related Proposals, and are pleased to note that the Panel has recommended that P198/P200/P203 and their Alternatives are not made. However, if the Panel feels that one of the Proposals must be implemented we believe P204 to be the least unacceptable of the options available.</p>

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<b>Respondent:</b>	<i>Alice Waltham</i>
<b>Company Name:</b>	Good Energy Ltd
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	<i>Good Energy Ltd</i>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	0
<b>Role of Respondent</b>	<i>Supplier</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	Yes	We do not believe the proposed modification would better facilitate the BSC objectives. We feel its effects are ambiguous and would be minimal compared to other locational and dispatch signals.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes / No	Not considered
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	Not considered

Q	Question	Response	Rationale
4.	Are there any further comments on P204 that you wish to make?	No	

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<b>Respondent:</b>	Man Kwong Liu
<b>Company Name:</b>	SAIC Ltd. (for and on behalf of ScottishPower)
<b>No. of BSC Parties Represented</b>	6
<b>Parties Represented</b>	ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	N/A
<b>Role of Respondent</b>	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
<b>Does this response contain confidential information?</b>	

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	<b>Yes</b>	While ScottishPower accept P204 significantly reduced the impacts on parties (when compared with other zonal losses proposals), we agree with the Panel's recommendation and the view that the effect of introducing a zonal losses scheme creates windfall gains and losses, which discriminates against certain parties and benefits others; generate no long term locational signal and gives an inconsistent, contradictory and uncertain signal which would give rise to uncertainty and distort competition, and therefore would not better facilitate the achievement of the applicable BSC objectives when compared with the current Baseline. However, ScottishPower would reiterate that, in comparing with other related zonal transmission losses proposals and if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	The legal texts appear appropriate.
4.	Are there any further comments on P204 that you wish to make?	Yes	ScottishPower would reiterate that, in comparing with other related zonal transmission losses proposals, and if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.

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<b>Respondent:</b>	Sam Murray
<b>Company Name:</b>	Uskmouth Power Limited
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	Uskmouth Power Limited
<b>No. of Non BSC Parties Represented</b>	
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	<i>Generator</i>
<b>Does this response contain confidential information?</b>	

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	No	Uskmouth believes that the modification would better facilitate the relevant objectives by better allocating the costs associated with losses. In the longer term this will lead to the more efficient operation of the market. However, we would note that we would prefer the P203 solution to the allocation of losses. P204 is however an improvement over the current baseline, notably when judged against applicable objective B.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	

Q	Question	Response	Rationale
4.	Are there any further comments on P204 that you wish to make?	No	

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<b>Respondent:</b>	<i>Alastair Barnsley</i>
<b>Company Name:</b>	E.ON-UK Energy Services Limited
<b>No. of BSC Parties Represented</b>	0
<b>Parties Represented</b>	
<b>No. of Non BSC Parties Represented</b>	1
<b>Non Parties represented</b>	E.ON-UK Energy Services Limited
<b>Role of Respondent</b>	<i>Party Agent</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	Yes / No	We wish to maintain a neutral position on proposed modification P204 as it will have no direct impact on our activities.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes / No	Please see response to question 1
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	Please see response to question 1

Q	Question	Response	Rationale
4.	Are there any further comments on P204 that you wish to make?	No	

Please send your responses by **12 noon on Friday 27 October 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Justin Andrews on 020 7380 4364, email address [justin.andrews@elexon.co.uk](mailto:justin.andrews@elexon.co.uk).

## P204 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

<b>Respondent:</b>	Robert Smith
<b>Company Name:</b>	National Grid
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	National Grid Electricity Transmission plc
<b>No. of Non BSC Parties Represented</b>	
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	GBSO/Transmission Company
<b>Does this response contain confidential information?</b>	

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.</p>	Neutral	<p>In principle, the introduction of any methodology that reflects onto participants the effect of their production or consumption, and location thereof, on transmission losses would be welcomed by National Grid as a means by which BSC objective B, the efficient, economic and co-ordinated operation of the GB transmission system could be better facilitated.</p> <p>However, there must be confidence that such a methodology will accurately allocate the cost of losses to those participants who have contributed to them and that the envisaged cost benefit of the introduction of such a methodology is proven to a reasonable level of certainty. If the attribution of losses is not carried out with sufficient accuracy then parties' relative position in the generation merit order will be unfairly distorted and the reallocation of cost will not be mirrored by a consequential reduction in variable transmission losses. Additionally, the cost and complexity of introducing and operating such a methodology would need to deliver clear financial benefits in terms of an expected reduction in the volume and cost of transmission losses over a given timeframe.</p> <p>Whilst very useful in informing the debate, we note from Oxera's cost benefit analysis report, the difficulties in producing an accurate ex ante transmission loss factor. A difficulty compounded by the limited number of Transmission System snap shots utilised in the analysis. In relation to modification P204, the better facilitation of both transmission objectives B and C rely on whether this TLF accurately reflects parties' relative contribution to the creation of variable transmission losses. Given the inherent difficulties in assessing this we are unable to offer an opinion as to its benefits relative to the current baseline.</p> <p>In reference to the cost benefit analysis of the proposal, we note the difficulty in attempting to forecast the effect on the geographical distribution of generation resulting from the introduction of zonal TLF. The proposal will only provide a cost benefit if the change in the costs of generation and demand result in some parties changing their behaviour thereby leading to an overall reduction in transmission losses. It is worthy of comment that the volatility of the year on year forecast benefit is influenced by the assumptions regarding the respective generation patterns of a very limited number of marginal units. We are not able to comment on whether the incentives will be sufficient to accomplish this or whether other commercial drivers, particularly on generation, have been correctly and fully modelled within the cost benefit analysis. We do note that a large proportion of the cost benefit occurs in only two of the years, as the result of a larger forecast movement of marginal generation in those years.</p> <p>Given this uncertainty it is not clear that the cost benefit envisaged in the analysis will materialise in practise. As such, we are unable to comment as to whether this modification better facilitates objective B, the efficient, economic and co-ordinated operation of the GB transmission system, in this regard.</p>

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P204 that you wish to make?	No	

Please send your responses by **12 noon on Friday 27 October 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

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## P204 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

<b>Respondent:</b>	<i>Martin Mate</i>
<b>Company Name:</b>	British Energy
<b>No. of BSC Parties Represented</b>	5
<b>Parties Represented</b>	<i>British Energy Power &amp; Energy Trading Ltd, British Energy Generation Ltd, British Energy Direct Ltd, British Energy Generation (UK) Ltd, Eggborough Power Ltd</i>
<b>No. of Non BSC Parties Represented</b>	-
<b>Non Parties represented</b>	-
<b>Role of Respondent</b>	<i>Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	No	<p>We believe the proposal would on balance better meet the BSC Objectives:</p> <p>BSC Objective B: Cost benefit analysis indicates that a relatively small reduction in transmission loss costs would be achieved as a result of theoretical changes in plant despatch. We would expect these reductions, as well as the effect of the indicated despatch changes on transmission constraints, to assist the System Operator in efficient operation of the transmission system. We accept that the effect is relatively small and subject to considerable uncertainty.</p> <p>BSC Objective C: Although there is scope for entirely inappropriate loss adjustments to be made in certain locations at certain times as a result of the significant assumptions and averaging in this proposal, the materiality of this is much reduced compared with the other current losses proposals, and on balance we believe it to be acceptable. Most locations will have a loss adjustment which is in the right direction relative to other locations and relative to the current arrangements, so better reflecting the contribution to the shared total cost of losses.</p> <p>BSC Objective D: Although the proposal would clearly increase BSC central costs, the benefits shown by independent cost benefit analysis, although subject to considerable uncertainty, outweigh the increased BSCCo costs. Additional comments are provided below on the issue of perceived complexity.</p>
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	We assume that in the event of an appeal of any Ofgem decision relating to transmission losses, the implementation date would be revisited as required.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	We believe the legal text will deliver the solution agreed by the Modification Group. Additional clarity in certain areas would have been beneficial to avoid potential misunderstanding by new readers, but in our view these areas are unlikely to lead to legal dispute.

Q	Question	Response	Rationale
4.	Are there any further comments on P204 that you wish to make?	Yes	<p>We note that the minority of the modification group and consultation respondents who did believe P204 would better meet the BSC Objectives was significant, when compared with proposals P198, P200 and P203.</p> <p>We also note that a large majority of the modification group (which was substantially the same for all of the current losses proposals) and consultation respondents appear to prefer P204 compared with other transmission loss proposals P198, P200 and P203, notwithstanding that the majority preference was for no change.</p> <p>We are surprised at concerns expressed that the proposal is 'too complicated'. The additional complexity on top of the use of a load flow model and various other necessary assumptions, approximations and averaging is in our view minimal. Although the equation to deliver the principle of this proposal may be non-trivial, this is as a result of the complexity of the other features of the transmission loss calculations. The principle itself is straightforward:</p> <ul style="list-style-type: none"> <li>• Measured total losses to be allocated zonally instead of uniformly, reflecting the fact that flows at different locations have different impacts on total losses,</li> <li>• Zonal allocation of variable losses to be a function of (but not equal to) marginal transmission loss factors determined from a load flow model,</li> <li>• Marginal transmission loss factors scaled down so that on average, as far as is practical, actual variable losses are effectively apportioned as a non-negative charge varying by zone.</li> </ul> <p>The most favourable outcome for a location would be no charge compared with the current uniform charge, and the least favourable outcome an increased charge.</p> <p>The economic rationale for limiting the scope for loss "credits" to be paid to certain beneficial locations by other parties is that parties as a whole have not willingly entering into agreements to pay for "loss reduction services", and those parties providing the benefits have not (and will not, in our view, supported by independent cost benefit analysis) locate in particular locations with the intention of providing such services. In the view of the majority of participants, enforcement of payments to parties in beneficial locations would represent a windfall gain for those parties, and a 'windfall loss' for those paying. Note that taken in isolation, each party would cause transmission losses in using the transmission system. In our view however, in principle it is not unreasonable to reduce charges for parties in beneficial locations, to zero in the most beneficial locations, relative to others, provided the changes do not undermine investment decisions. The scaling in this proposal reduces the risk of this being the case.</p>

Please send your responses by **12 noon** on **Friday 27 October 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Justin Andrews on 020 7380 4364, email address [justin.andrews@elexon.co.uk](mailto:justin.andrews@elexon.co.uk).

Dear Sirs,

This response is sent on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.

In relation to the four questions contained within your note of 19th October 2006, and the associated Modification Report consultation for P204, we have the following comments to make.

Q1 Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 should not be made? Please give rationale.

Yes we agree with Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 should not be made.

We do not believe that Proposed Modification P204 better facilitates the achievement of any of the Applicable BSC Objectives when compared with the current Code baseline. This is consistent with the initial view of the P204 Modification Group and the initial view of the BSC Panel.

However, we do believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives when compared with P198 (Proposed or Alternative) or P203.

Q2 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.

Whilst we do not believe that P204 should be implemented, we support the implementation approach as described in the consultation document. It seems a pragmatic solution to implement P204 from 1st April 2008.

We believe that it would be both useful to the market and helpful to the TLM Agent if, once approved, the Agent was to undertake a 'dummy-run' in 2007 using real data for 2005-06 to produce 'real' annual TLM (rather than the 'snap-shots' so far available). This would also enable the Agent to iron out any problems before going live with the 2006-07 data in the autumn of 2007.

Q3 Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.

We agree with the Panel that the legal text provided in the draft Modification Report correctly delivers the solution agreed by the Modification Group with respect to the P204 Modification Proposal.

Q4 Are there any further comments on P204 that you wish to make?

None at this time.

We look forward to commenting on the Authority's Regulatory Impact Assessment in due course.

Sent on behalf of:

Garth Graham  
Scottish and Southern Energy

## P204 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

<b>Respondent:</b>	David Scott
<b>Company Name:</b>	EDF Energy
<b>No. of BSC Parties Represented</b>	9
<b>Parties Represented</b>	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc; EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power); EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; EDF Energy Customers Plc; Seeboard Energy Limited
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	Supplier/Generator/ Trader/Distributor
<b>Does this response contain confidential information?</b>	<u>No</u>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 <b>should not</b> be made? Please give rationale.	Yes	<p>We agree with the Panel's provisional recommendation to the authority; we do not believe that the Proposed Modification P204 would better facilitate BSC objectives (B) or (C) for the following reasons.</p> <p>All recent losses schemes, particularly P198 and P203, have proposed that a reduction in losses can be made by reappportioning losses between zones. Our opinion has been, and still is, that any reduction in losses (if this benefit were to be realised) would only be gained after significant redistribution of funds between parties, which is contrary to objective (C). We agree that P204 offers a more acceptable balance between cost benefit and redistribution, over that of P198 and P203, but that this still remains worse than the current code baseline. We believe that P204 will result in an adverse distributional impact (on both generation and demand), without resulting in significant cost benefit from plant re-despatch.</p> <p>We also note the additional cost and complexity that P204 will add to the current code baseline which will negatively impact Objective (D).</p>
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	Yes	Yes, we agree with the panel's provisional recommendation for an implementation date (if approved). However, we retain the belief that it may have been prudent for Elexon (and the panel) to factor in the possibility of any legal challenge that may arise from the Authority's decision, as all previous change proposals relating to zonal charging for losses, both in the Pool and under NETA, have been taken to court.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	Yes, we believe the legal text delivers the solution, however we are aware of some working group members' concerns over the text. BSCCo's suggestion of a housekeeping modification to alter any text after approval, but before implementation, is sensible; as it will allow the identical text of any of the losses modifications to be altered when approved.

Q	Question	Response	Rationale
4.	Are there any further comments on P204 that you wish to make?	Yes	<p>P204 is proposed as a zonal losses scheme where the most favourable position is to have only fixed losses apportioned to the trading unit. We agree with the principle, that a southern generating station should not be credited with any extra energy (above that it had generated) and northern demand not be debited energy (below that it had actually consumed), is a fairer scheme compared to all other outstanding losses Modifications, especially for existing generation and demand that cannot relocate. We do however still believe that this is worse than the current code baseline.</p> <p>We also continue to question the need for any losses scheme that will add both additional cost and complexity to an already complicated set of rules.</p>

Please send your responses by **12 noon on Friday 27 October 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

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