

## Responses from P204

Consultation Issued 12 September 2006

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Alcan Smelting and Power UK	P204_AR_001	0	1
2.	E.ON UK Plc	P204_AR_002	13	0
3.	National Grid	P204_AR_003	1	0
4.	RWE Trading GmbH	P204_AR_004	11	0
5.	International Power plc	P204_AR_005	4	0
6.	Immingham CHP LLP	P204_AR_006	2	0
7.	EDF Energy	P204_AR_007	9	0
8.	SAIC Ltd. (for and on behalf of Scottish Power)	P204_AR_008	6	0
9.	Good Energy Ltd	P204_AR_009	1	0
10.	BizzEnergy Limited	P204_AR_010	1	0
11.	SmartestEnergy Ltd	P204_AR_011	1	0
12.	Scottish and Southern	P204_AR_012	5	0
13.	E.ON UK Energy Services Limited	P204_AR_013	0	1
14.	Centrica	P204_AR_014	9	0
15.	Uskmouth Power Limited	P204_AR_015	1	0
16.	British Energy	P204_AR_016	5	0

**P204 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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 (e.g. Agents)</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 believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)</p>	<p>Yes / No</p>	<p>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 believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline?</p> <p>Continued...</p>	Yes / No	<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 believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale</p>	Yes / No	<p>By its nature, P204 will have a disproportionate impact on northern generators and southern suppliers.</p> <p>However, in contrast to Mods P198, P200 and P203; P204 does not discriminate against northern embedded generation, as P204 would not create an embedded disbenefit associated that arises when suppliers are charged negative losses.</p>

Q	Question	Response	Rationale
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	<b>Yes / No</b>	<p>Alcan believes that P204 will increase the costs of capital for energy intensive industrial investments in the UK. The assessment to date has focussed on the impact on utility generators in its assessment and ignored the final customer and industrial generators, few of which are party to the BSC or even aware of this consultation process.</p> <p>Alcan's principal investments in its smelters and associated power stations were undertaken many decades ago, before proposals to introduce locational charging for transmission losses were first mooted. This is in contrast to 'dash for gas' power station investments made during the 1990s. The retrospective application of regulations and pricing signals on investments that cannot respond to them (as Alcan cannot maintain its required security of supply without its onsite generation) is a triumph of principle over practicality that places an unnecessary cost on UK industry. The application of P204 would increase regulatory risk and the cost of capital as it would emphasise the susceptibility of investments in the UK to regulatory whim.</p>
4.	Do you support the implementation approach described in the consultation document? Please give rationale	<b>Yes / No</b>	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	<b>Yes / No</b>	
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	<b>Yes / No</b>	

Q	Question	Response	Rationale
7.	Are there any further comments on P204 that you wish to make?	Yes / No	<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> <p>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.</p> <p>It may be helpful to the Panel if Alcan expressed its relevant preference for the transmission losses modifications. Our 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>

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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>	Ben Sheehy
<b>Company Name:</b>	E.ON UK Plc
<b>No. of BSC Parties Represented</b>	13
<b>Parties Represented</b>	Citigen London Ltd., Cottam Development Centre Ltd., E.ON UK Ironbridge Ltd., E.ON UK plc, Economy Power plc, Enfield Energy Centre Ltd., Midlands Gas Ltd., Powergen Retail Ltd., TXU Europe (AH Online) Ltd., TXU Europe (AHG) Ltd., TXU Europe (AHGD) Ltd., TXU Europe (AHST) Ltd., Western Gas Ltd.
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	0
<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>	Supplier/Generator/ Trader / Consolidator / Exemptable Generator
<b>Does this response contain confidential information?</b>	No.

Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	Yes	The cost-benefit analysis undertaken as part of the assessment procedure indicates that the Proposal would achieve a reduction in the level of variable transmission losses. This would be an improvement on the uniform charging baseline and therefore represents the better facilitation of Objective (b).  We maintain that uniform charging creates cross subsidies, to the detriment of effective competition. P204 would introduce a method of allocating variable losses that is more cost-reflective than the baseline. It would therefore better facilitate Objective (c).

Q	Question	Response	Rationale
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	No	P204 aims to allocate variable transmission losses in a way that better reflects the extent to which Parties give rise to them. As such we do not accept that charges calculated under P204 would create windfalls.
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	No	---
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	---
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	---
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	---
7.	Are there any further comments on P204 that you wish to make?	Yes	<p>Although P204 better facilitates Objectives (b) and (c) against the baseline, we believe that more value would be extracted from the implementation costs through implementation of the most cost-reflective Proposal: namely P203.</p> <p>The benefits of P204 against Objective (b) are limited, as it would provide less of a financial incentive (compared with P203) for Parties to invest in the longer-term in more appropriately located generating plant.</p> <p>The benefits of P204 against Objective (c) are also limited, as no positive incentive, in energy credits, is provided to Parties whose actions result in a decrease in total system losses.</p>

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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>Andrew Truswell</i>
<b>Company Name:</b>	<i>National Grid</i>
<b>No. of BSC Parties Represented</b>	<i>1</i>
<b>Parties Represented</b>	<i>National Grid Electricity Transmission plc</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	<i>None</i>
<b>Non Parties represented</b>	<i>N/A</i>
<b>Role of Respondent</b>	<i>Transmission Company</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 believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)</p>	Neutral	<p>We are neutral as to whether Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives overall compared with the current Code baseline. In theory the introduction of a zonal transmission losses scheme will provide a market signal for generation and demand to locate closer to each other, thereby reducing the total amount of transmission losses and better facilitating the achievement of objective (b), the efficient, economic and co-ordinated operation of the GB transmission system. However, a zonal transmission losses scheme would be only one of many factors that would influence future investment decisions or short term dispatch, and the scaling factor calculation aspect of Proposed Modification P204 makes the assessment of any effects even more difficult. It is therefore very difficult to quantify the extent to which the operation of the transmission system would become more economic.</p> <p>Additionally, in order to obtain the overall reduction in losses, there would be a redistribution in the allocation of losses between parties which may fail to better facilitate the achievement of objective (c), the promotion of effective competition in the generation and supply of electricity. Whilst the scaling factor element of P204 may reduce any such redistribution when compared to other recent zonal transmission losses proposals, so too would it reduce the potential benefits under objective (b).</p> <p>Finally, the introduction of a zonal transmission losses scheme would significantly increase the costs and complexity of the BSC arrangements, thereby potentially failing to better facilitate the achievement of objective (d), the promotion of efficiency in the implementation and administration in the balancing and settlement arrangements.</p>

Q	Question	Response	Rationale
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	No	Although there may be redistributive impacts of Proposed Modification P204, we consider that all classes of Parties are treated equally, and that there is therefore no disproportionate impact on any particular class or classes of Parties.
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Neutral	We understand that the perceived impact on regulatory risk is in relation to investment decisions regarding generation, and National Grid does not therefore believe that it is appropriate for us to comment on this issue.
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	We believe that the implementation approach described in the consultation document is appropriate.
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	We have not identified any alternative solutions that we believe should be considered.
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	We do not believe that P204 raises any issues that have not been identified so far.
7.	Are there any further comments on P204 that you wish to make?	No	

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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 (e.g. Agents)</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>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	Yes	We believe that the proposed modification proposal will better meet the BSC objectives. In particular, the proposal will remove discrimination with benefits under Objective A, result in more cost-reflective allocation of losses with benefits under Objective B and remove the distortions that arise under the current arrangements, with benefits for competition under Objective C.

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

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	No	
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	No	This matter is outside the scope of the BSC Applicable Objectives. Regardless of this we believe that all parties in the electricity supply industry have been aware of the possibility of the introduction of a zonal transmission losses scheme in a GB context since 1990 and should have taken this into account.. Therefore the modification proposal will have no incremental impact on the cost of capital
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
7.	Are there any further comments on P204 that you wish to make?	Yes	We would note that the benefits of P204 will be lower than those associated with pending modification proposals P198 alternative and P203. This is because the scaling factor to remove the negative allocation of transmission losses will preserve an element of cross subsidy and reduce the cost reflective allocation of losses. This will have a detrimental impact on parties that contribute to the reduction of losses overall.

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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>Libby Glazebrook</i>
<b>Company Name:</b>	<i>International Power plc</i>
<b>No. of BSC Parties Represented</b>	<i>4</i>
<b>Parties Represented</b>	<i>Deeside Power Development Co Ltd, First Hydro Company, Rugeley Power Generation Ltd, Saltend Cogeneration Ltd</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	<i>None</i>
<b>Non Parties represented</b>	<i>None</i>
<b>Role of Respondent</b>	<i>Supplier/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.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	Yes	<p>The CBA demonstrates that P204 better facilitates objective b as the reduction in losses results in an NPV cost saving to 2105/16 of £32m. This saving will better facilitate the efficient and economic operation of the system (objective b).</p> <p>We note that all new large generation in the 2006 SYS (apart from wind generation) is locating in the south. Whilst zonal losses will provide a locational investment signal, TNUoS charges and the proximity to fuel sources are far larger factors in this decision. As noted in the Oxera CBA, whilst wind generators will in the main be exposed to an increased charge for transmission losses, ROCs (and also wind strength) play a far bigger factor. In addition, the impact of P204 on renewables will be less than under P198 and P203.</p> <p>However, the removal of the flat rate charge for losses will reduce the cross subsidies that northern generators currently enjoy. Whilst this may not alone drive siting decisions, it will be a contributory factor. This will promote competition in the generation and supply of electricity (objective c) in operational timescales, ensuring more efficient despatch at BMU level.</p>
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	Whilst P204 will create winners and losers in the longer term for existing generation assets, the distribution of charges is fairer than under P198 and P203 since no BSC Party is paid for the losses they create.
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Neutral	Zonal transmission losses have been a prospect since the days of the Electricity Pool. Generators should therefore take account of the regulatory risk that zonal losses might be introduced in their cost of capital.
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	

Q	Question	Response	Rationale
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
7.	Are there any further comments on P204 that you wish to make?	No	

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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>Kirsten Elliott-Smith</i>
<b>Company Name:</b>	<i>Immingham CHP LLP</i>
<b>No. of BSC Parties Represented</b>	<i>2</i>
<b>Parties Represented</b>	<i>Immingham CHP LLP ConocoPhillips (U.K.) Limited</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	<i>Generator/trader</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

<p>1.</p>	<p>Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)</p>	<p>No</p>	<p>ICHIP strongly opposes P204, and believes it does not better facilitate achievement of the applicable BSC objectives. In particular:</p> <p><u>Efficiency</u></p> <p>It is clear from the Oxera work that any alleged benefits are narrowly confined to short-term despatch effects, and the proposal does not create any longer-term locational signalling. Further many of the benefits can be expected to arise “organically” from wider system changes and new investment in the south, and which cannot be claimed as attributable to P204.</p> <p>The potential impacts of P204 could confuse existing locational signals in the market place in the form of National Grid’s transmission use charges, and the issue of duplication and overlap with locational elements of TNUoS charges needs to be addressed urgently. These distortions are aggravated by the use of different generation zonal configurations for TNUoS and losses purposes.</p> <p>Over the longer-term, any longer-term locational impacts of P204 would not be realised until beyond 2015, greatly reducing the claimed benefits of the change.</p> <p>As with all proposals for zonal losses, the cost and complexity of the change is significant (and greater than competing modification proposals such as P198 and P203) and we believe understated by the Oxera analysis. Understanding, forecasting and managing the variation in locational TLFs will be difficult and impose further transactional costs on the market, and these costs increase disproportionately the smaller the player.</p>
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		<p><u>Competition</u></p> <p>P204 would also be inequitable and create windfall gains and losses on a discriminatory basis. These distributional effects could be sufficiently material as to lead to cancellation of some committed schemes and discourage significant new investment. These risks are not diversifiable, and the modification introduces a further unmanageable risk for certain types of participant.</p> <p>It is also relevant that integrated players tend to have a natural hedge because of their regional spread. As with all the losses proposal, P204 has a more pronounced impact on non-portfolio players. By increasing market complexity and disadvantaging remaining independent generators in the North and Scotland, it can be expected over time to create further pressures for integration to the detriment of wider competition in the sector.</p> <p>However, extrapolating these arrangements to participants already committed to investment creates a random redistribution of wealth. For businesses such as our own, where electricity production tends to be a secondary process tied to heat production, the change simply increases arbitrarily the cost of business which can be likened to an operational tax.</p> <p>Economic signals can only work if market participants are able to respond to them. Many participants, e.g. existing generation, CHP (located to suit demand needs on existing industrial sites) and windpower (located where the wind blows), cannot respond to new locational costs in the market. It is highly undesirable, given the vast quantum of sunk investment, to create such incentives.</p>
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			<p>Thus, imposing P204 on a market where there will be skewed ability to respond will lead to market inefficiency through artificially increasing some participants' costs, especially where very large capital investment has already been spent on facilities designed to last 30 years. In turn such change will distort competition.</p> <p>Overall the effect of P204 measured against applicable objective (c) is significantly negative, penalising existing investment decisions and causing a negative impact on competition. Looking forward, as we have noted, the change increases market complexity and risk, and we do not agree this risk is diversifiable, which could reinforce barriers to entry.</p> <p><u>Efficiency in BSC arrangements</u></p> <p>The cost and complexity noted above lead us to believe that P204 would create a net disbenefit under objective (d).</p>
2.	<p>Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale</p>	Yes	<p>We believe that the current change proposal disproportionately and systematically disadvantages specific technologies and certain classes of market participants. CHP plant location is largely tied to the industrial site it is associated with, and it would therefore not be responsive to the cost signals these proposals seek to introduce. In terms of capacity, the regions of Scotland, Yorkshire/Humber, the North West and the North East of England - which would be impacted most adversely by the proposal - account for well over 2/3rds of currently installed CHP capacity.</p> <p>Additional complexity also impacts disproportionately on smaller players, favouring the large integrated players who are better able to diversify risks arising from change and have more resource to deal with its implications.</p>
3.	<p>Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale</p>	Yes	<p>The change would impact adversely on risk and competition in the marketplace and could be regarded as creating a further barrier to entry.</p>

4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	An April 2008 implemented is the earliest achievable. If the date should slip further for any reason, the revised date should coincide with the next suitable 1 October or 1 April date to coincide with contract commencement.
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
6.	The Modification Group has estimated that the Net Present Value of future benefits for the Proposed Modification is circa £19million over the ten year period. A more detailed estimate is being prepared by Oxera. Provided that this figure is of a similar magnitude to £19 million no further industry consultation will be undertaken during the Assessment Procedure, although Parties will have an opportunity to comment on the further Oxera findings during the Report Phase. Do you agree with this approach?	Yes	
7.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	ICHP is disappointed that an SO- or TO-focussed approach to management of transmission losses has not been considered in parallel with the various zonal losses modification proposals. While this style of approach does not necessarily address the defect identified by the proposer by providing a solution within the BSC, it evidently is an option for meeting the intention behind the modification of creating an arrangement that enables optimal management of the cost of transmission losses. Several markets internationally apply downward pressure on the cost of transmission losses through mechanisms administered by the transmission entity, and this type of approach would be very compatible with the existing style of approach to setting transmission incentives in the UK.
8.	Are there any further comments on P204 that you wish to make?	No	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **Monday 18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

**P204 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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 (e.g. Agents)</b>	0
<b>Non Parties represented</b>	0
<b>Role of Respondent</b>	Supplier/Generator/ Trader/Distributor
<b>Does this response contain confidential information?</b>	No

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
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Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	No	<p>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 reapportioning 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 may also still 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 believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	We believe that parties, such as CHP, renewables and demand will have a disproportionate impact placed on them by P204. These will not respond to the signals that P204 will provide and will be directly exposed to the scheme.
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	No	Although we are not supportive of this Modification, we believe that the impact on the cost of capital is negligible - regulatory risk is something that any party who is a signatory of the BSC is subject to and the presence of a Modification Process in the code merely re-iterates this point.
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	However, it may have been prudent for Elexon 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.

Q	Question	Response	Rationale
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	It is our opinion that the introduction of a zonal losses scheme within the BSC is not the best way to encourage economic location of generation (or location of demand). With this rationale we believe that transmission issues are best managed through transmission charging and the CUSC not the BSC. In reality the cost of connection and system reinforcement for new generation should be a very much more material issue, when cost-reflectivity in relation to transmission is considered, than electrical transmission losses.
6.	The Oxera Cost benefit Analysis has shown that the Net Present Value of future benefits for the Proposed Modification is circa £31million over the ten year period (seasonal approach). It is proposed that no further Assessment Procedure consultation will be undertaken. Do you agree with this approach?	Yes	We agree that no further assessment procedure should be undertaken.
7.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P204 that you wish to make?	Yes	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.  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.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment

Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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>	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 (e.g. Agents)</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
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Q	Question	Response	Rationale
1.	<p>Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline?</p> <p>Please give rationale and link this to specific BSC Objective(s)</p>	<b>No</b>	<p>ScottishPower do not believe that a seasonal zonal transmission losses scheme as proposed in P204 would better achieve the Applicable BSC Objectives, when compared with the current baseline. We believe that certain fundamental aspects of P204 would jeopardise the achievement of the following applicable BSC objectives:</p> <p><b>Objective (a)</b> Though significantly reduced, the proposed modification still discriminates against certain parties while favouring others through the transfer of values and windfalls.</p> <p><b>Objective (b)</b> As with other zonal transmission losses modification proposals, this modification does not generate the sought after long term locational signal. And gives an inconsistent, contradictory and uncertain short term signal. The CBA analysis, as was for P198, highlighted a transfer of values between north and south giving windfall gains and losses with ambiguous and questionable signals and benefits due to it being based on a central despatch economical model, whereas the current BETTA market is based on a self despatch model.</p> <p><b>Objective (c)</b> Though significantly reduced, this modification will still create windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which could be a barrier for new entrants, and an increased implementation cost for existing parties – both detrimental to promoting effective competition.</p> <p><b>Objective (d)</b> This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency.</p> <p>However, in comparing with other related zonal transmission losses proposals, ScottishPower believe that if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.</p>

Q	Question	Response	Rationale
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	Whilst reduced when compared with other related zonal transmission losses proposals, implementation of P204 would still lead to increased costs for several classes of Parties, particularly for parties who have plant with environmental constraints, such as Windfarms; Nuclear stations; all types of Renewables or fossil (coal) plants, who are unable to change their operational regime readily, and are located historically in the North of the country.
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes	ScottishPower believe that there would be an impact. The effect of implementing P204, as with other related zonal transmission losses proposals, would be to increase the perceived regulatory risk associated with the electricity industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency and competition. Risks remain for both existing players and new entrants of future changes in TLFs. We believed that any form of regulatory risk would effect future investment decisions.
4.	Do you support the implementation approach described in the consultation document? 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
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	During the extensive modification procedure on the related transmission losses proposals, we believe all viable alternatives have been explored
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	

Q	Question	Response	Rationale
7.	Are there any further comments on P204 that you wish to make?	Yes	In comparing with other related zonal transmission losses proposals, ScottishPower believe that if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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>Alice Waltham</i>
<b>Company Name:</b>	<i>Good Energy Ltd</i>
<b>No. of BSC Parties Represented</b>	<i>1</i>
<b>Parties Represented</b>	<i>Good Energy Ltd (PURE)</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	<i>0</i>
<b>Non Parties represented</b>	<i>0</i>
<b>Role of Respondent</b>	<i>Supplier</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 believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)</p>	No	<p>We believe the Proposed Modification P204 would have a neutral effect on BSC Objective (a).</p> <p>We believe that the Proposed Modification would not better facilitate BSC Objective (b). We feel that suppliers have a significant incentive to balance their supply to demand. This may reduce the ability of generators to change their dispatch, as suppliers will want generation to prevent them being short. Therefore we feel that the impact P204 would have on dispatch is ambiguous. The significant generation coming online in the south in circa 2012 indicates that other factors such as TNUOS are already providing a clear locational signal. It is not clear to us that P204 will have any significant impact on the location of generation, beyond that already given by TNUOS. Overall we feel the change will increase the costs to suppliers in amending and updating their systems whilst providing negligible benefit.</p> <p>We believe that the Proposed Modification would not better facilitate BSC Objective (c). We feel that renewable generators and small suppliers would be disproportionately impacted by the modifications (see Q.2 for more detail).</p> <p>We believe that the Proposed Modification would not better facilitate BSC Objective (d). We feel that the modification would add complexity and cost, therefore reducing efficiency.</p>
2.	<p>Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale</p>	Yes	<p>We feel that renewable generation would be disproportionately impacted by the modification as there are restrictions on the suitable sites available for renewable generation. This would also have a disproportional impact on suppliers that purchase significantly from renewable generation.</p> <p>We believe the modification would also have a disproportionate impact on small suppliers as the costs of modifying their systems are proportionally greater.</p>

Q	Question	Response	Rationale
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes / No	
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes / No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes / No	
7.	Are there any further comments on P204 that you wish to make?	No	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon on 18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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>Faye Hankin</i>
<b>Company Name:</b>	<i>BizzEnergy Limited</i>
<b>No. of BSC Parties Represented</b>	<i>1</i>
<b>Parties Represented</b>	<i>BizzEnergy Limited</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	<i>0</i>
<b>Non Parties represented</b>	<i>0</i>
<b>Role of Respondent</b>	<i>Supplier</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 believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	No	<p><b>Applicable BSC Objective (a)</b> In line with the Transmission Company Analysis we believe the Proposed Modification will have a neutral effect on this Objective.</p> <p><b>Applicable BSC Objective (b)</b> The defect identified in P198/P200/P203/P204 will only be addressed where it is both practical and commercially viable for BM Units to respond. In turn the operation of the GB transmission system will only be affected insofar as BM Unit behaviour is modified. This will only occur if the effect of the Proposed Modification outweighs other locational factors in the siting of generation and demand. We do not believe that this will be the case. Furthermore we believe that it is only longer term decisions that are potentially affected. We note that the Oxera Cost-Benefit Analysis supports this view in concluding that P198 would not result in the re-location of any existing generation plant. This is not to</p>

Q	Question	Response	Rationale
			<p>say, however, that we believe that no efficiency benefits will be realised from the implementation of this Proposed Modification, only that they will take considerable time to be realised.</p> <p><b>Applicable BSC Objective (c)</b>  Due to limited ability of BM units to respond to the Proposed Modification, we believe that that the initial effect of this modification will be distortionary as windfall gains/losses will result.</p> <p>Unpredictable shifts in the cost base of the supplier and/or perceived instability has anti-competitive effects as it presents a barrier to the entry of new participants into the market. We therefore believe that the Proposed Modification would not better facilitate this Objective.</p> <p><b>Applicable BSC Objective (d)</b>  Zonal transmission losses will introduce further elements into an already complex set of trading arrangements. We therefore believe that this Objective will be compromised by the Proposed Modification.</p> <p><b>Conclusion</b>  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>We also recognise that the achievement of Applicable BSC Objective (b) may be better facilitated by the Proposed Modification, although the magnitude 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.</p>
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	Parties will be disproportionately affected according to whether they possess generation assets to act as a risk offsetting tool. Gains/losses on the generation side will be offset by gains/losses on the demand side. A party without generation does not have this opportunity. Parties with generation will be disproportionately affected according to the size, type and location of generation assets. A generator with assets in a

Q	Question	Response	Rationale
			<p>wide variety of locations will experience offsetting gains and losses. A generator in the north will be penalised for previous investments decisions. Of particular concern are current and potential generators of renewable energy who will be disproportionately affected due to the relative inflexibility in the opportunities to site such plant.</p> <p>Suppliers will be disproportionately affected according to the size and nature of their customer portfolio and the nature of the contractual arrangements that they have in place. A supplier with a large domestic portfolio will be able to reflect the changes in their cost base with 28 days notice to the customer. A supplier with many of the largest customers supplied on a pass through basis will be able to pass on the charges immediately. A supplier such as BizzEnergy who supplies the smaller end of the I&amp;C market on a fixed term basis would face the choice between absorbing the extra costs (which could very easily result in supplying at a loss) or invoking Terms and Conditions clauses to re-price customers (a very commercially damaging route to go down).</p>
3.	<p>Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale</p>	Yes	<p>Every time a fundamental change is made to trading arrangements it must serve to increase the perceptions of regulatory risk and the cost of capital. This is particularly significant to potential entrants to the market and to stand alone suppliers. Movements in the cost base that could very easily wipe out profit margins are not going to encourage people to move into electricity supply.</p> <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>
4.	<p>Do you support the implementation approach described in the consultation document?</p>	No	<p>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</p>

Q	Question	Response	Rationale
	Please give rationale		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.
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes	We believe that the Group should give consideration to a more sensitive solution that allows the market to adjust to the impact of the Proposal in a more appropriate way. A solution that allowed for a rolling average of TLFs over multiple years would reduce the possibility of further de-stabilising step changes.
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	Although analysis has been carried out to assess the cost benefit of the Proposed Modification on the industry as a whole via the CBA of P198, there have so far been no assessment on the materiality of the change on types of supplier that are fundamentally different. As described in our response to Question 2, the impact of this Proposal will vary significantly according to generation ownership and the size and type of customer portfolio held.
7.	Are there any further comments on P204 that you wish to make?	Yes	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). 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.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006

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 believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	Yes	We believe this modification improves efficiency and competition in the industry without going so far as to create barriers to entry (which we believe some of the more extreme transmission losses modifications would do)
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	No	The analysis indicates to us that the effects of P204 strike the right balance between the need for more economical despatch and not creating a dramatic "winners and losers" situation. Other modifications have provoked alternatives from certain classes of party to mitigate against alleged disproportionate impact. These alternatives have introduced further elements of unfairness with regard to other parties. We note that this situation has not arisen with P204 and must, therefore, be an overall acceptable and fairer proposal.

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	No	We note that the despatch benefits are still quite high compared with those under P198, whereas the amount of cash changing hands is significantly reduced. We conclude, therefore that P204 can deliver good benefits without the dangers of massive (and potentially incorrect) cashflows between parties.
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
6.	The Modification Group has estimated that the Net Present Value of future benefits for the Proposed Modification is circa £19million over the ten year period. A more detailed estimate is being prepared by Oxera. Provided that this figure is of a similar magnitude to £19 million no further industry consultation will be undertaken during the Assessment Procedure, although Parties will have an opportunity to comment on the further Oxera findings during the Report Phase. Do you agree with this approach?	Yes	
7.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P204 that you wish to make?	No	We prefer P204 to all the other modifications on the subject of transmission losses.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **Monday 18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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).

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Our Reference:

Your Reference:

Date : 18th September 2006

Dear Justin,

### **Consultation on Report Phase of P204 ‘Scaled Zonal Transmission Losses’**

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 seven questions in the “P204AC Proforma final addendum v2” file contained within your note of 13<sup>th</sup> September 2006, and the associated Modification Report consultation for P204, we have the following comments to make. Our detailed position and concerns relating to a zonal losses scheme are given in our response to the recent P198 consultation.

**Q1 Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)**

No. We believe that Proposed Modification P204 would not better facilitate the achievement of the Applicable BSC Objectives when compared with the current Code baseline.

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

Overall, we believe that a zonal losses scheme (e.g. P198, P200, P203 or P204) would have a host of flaws, which we have outlined in our response to the ‘sister’ consultation, P198. These are briefly; (a) the methodology and modelling is flawed – the proposal provides no signal; (b) there is no need for zonal losses; (c) the adverse financial impact and effect on the market; (d) the adverse impact on the Government’s Climate Change objectives; (e) there has been no expectation of change; and (f) Ofgem’s wider duties.

**Q2 Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale**

Yes. We believe that P204 would have a disproportionate impact on generation connected at 132kV in Scotland and would, given the Government statement that the “fact is that most renewables are more likely to be sited in Scotland—probably in the north of Scotland”, also disproportionately impact on renewable generation.

We have been mindful of the report commissioned by the DTI in June 2003 into "The Impact of Average Zonal Transmission Losses Applied throughout Great Britain" (written for the DTI by Oxera) which states (pg iv) that:-

"The high degree of scaling for generation output in the two Scottish regions is reflective of the inclusion of 132 kV lines as part of the transmission network in Scotland\* as well as the geographical distribution of generation and demand in Great Britain."

\*"132 kV lines are classified as distribution in England and Wales but as transmission lines in Scotland. Losses in these [132 kV] lines tend to be higher than in higher voltage lines, and will affect TLFs in Scotland but not in England and Wales."

**Q3 Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale.**

Yes. It is clear that regulatory risk can impose a premium on the cost of capital and should, for that reason, be avoided if possible

For example, our Glen Doe hydro generation investment could be expected (based on our existing hydro generation plant) to be operating for well over 40 years. Such long-term investments are entered into in response to the signals that prevail at the time the investment is made. These assets cannot be moved, so the generator is unable to respond to the alleged ‘signal’ associated with zonal losses. It is, therefore, inappropriate to prejudice the output of those generators now.

Anything as profound as applying a zonal losses scheme, which, according to the Oxera report will see an excessive financial transfer of funds from northern GB generation to southern GB generation, and will significantly increase the perception, amongst those wishing to invest in new generation, about the regulatory risk as well as having a negative impact on the cost of capital for existing and new generation and adversely affecting the competitive market.

**Q4 Do you support the implementation approach described in the consultation document? Please give rationale**

Whilst we do not believe that P204 should be implemented, if the decision is taken to introduce a zonal losses scheme, we believe that P204, as described in the consultation document, outlines one of the more acceptable implementation approaches. It seems a pragmatic solution to implement P204 from 1<sup>st</sup> April 2008 (or later depending on when the Authority decision is received).

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.

**Q5 Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale**

None at this time.

**Q6 Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale**

None at this time.

**Q7 Are there any further comments on P204 that you wish to make?**

We look forward to commenting on the recommendations of the Panel at the appropriate time.

Yours sincerely,

Garth Graham  
Scottish and Southern Energy

**P204 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	Yes / No	We wish to maintain a neutral position on this modification as it will have no direct impact on our activities.
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes / No	Please see response to question 1
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes / No	Please see response to question 1

Q	Question	Response	Rationale
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes / No	Please see response to question 1
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes / No	Please see response to question 1
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes / No	Please see response to question 1
7.	Are there any further comments on P204 that you wish to make?	No	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon on 18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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>Dave Wilkerson</i>
<b>Company Name:</b>	<i>Centrica</i>
<b>No. of BSC Parties Represented</b>	<i>9</i>
<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 (e.g. Agents)</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>

<b>Q</b>	<b>Question</b>	<b>Response</b> Error! Bookmark not defined.	<b>Rationale</b>
1.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	No	We do not believe that P204 better facilitates any of the BSC Objectives. We believe that any perceived benefits are far outweighed by the large cash transfers between participants. We also believe that the perceived benefits have been greatly overstated. The redespach benefits assumed by Oxera are unlikely to be realised, and there are already long-term locational signals in place for new generation through TNUoS charging. We also note that National Grid's ambivalence as to whether the zonal losses schemes will actually have any effect on total transmission system losses.

Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	As has been identified during the assessment of the other Transmission Losses modifications, renewable generation will be negatively affected in particular, as it is less able to respond to locational signals. Other participants are negatively affected through historic investment decisions taken under previous regulatory regimes, which it would be highly inappropriate to penalise.
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	No	
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
7.	Are there any further comments on P204 that you wish to make?	Yes	We believe very strongly that there is no actual defect in the BSC with regard to transmission losses, and therefore we do not believe that any of the transmission losses currently under consideration should be approved. However, if Ofgem were to implement any zonal losses scheme (against the wishes of the great majority of the industry, as well as the Panel and a nominally neutral Transmission Company), we believe that P204 is the 'least worst' option, as the disproportionate windfall gains and losses are smaller than under the other proposals.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon on 18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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>	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 (e.g. Agents)</b>	
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	<i>Generator</i>
<b>Does this response contain confidential information?</b>	

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	Yes	P204 is better than the base line – more cost reflective etc. See response other losses mods. However, P203 is our favourite solution to the problem of non-cost reflective losses.
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	No	
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	No	
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	

Q	Question	Response	Rationale
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
6.	The Modification Group has estimated that the Net Present Value of future benefits for the Proposed Modification is circa £19million over the ten year period. A more detailed estimate is being prepared by Oxera. Provided that this figure is of a similar magnitude to £19 million no further industry consultation will be undertaken during the Assessment Procedure, although Parties will have an opportunity to comment on the further Oxera findings during the Report Phase. Do you agree with this approach?	Yes	
7.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P204 that you wish to make?	No	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **Monday 18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006****UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006**

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>	<i>British Energy</i>
<b>No. of BSC Parties Represented</b>	<i>5</i>
<b>Parties Represented</b>	<i>British Energy Power &amp; Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd, British Energy Direct Ltd, British Energy Generation (UK) Ltd</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	<i>-</i>
<b>Non Parties represented</b>	<i>-</i>
<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>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
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Q	Question	Response	Rationale
1.	<p>Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline?</p> <p>Please give rationale and link this to specific BSC Objective(s)</p>	Yes	<p>BSC Objective B relating to efficiency of transmission system operation:</p> <p>By charging for transmission losses differentially by location according to the relative contribution a location makes to total losses, individual locations would have more incentive than at present to act in a manner which reduces losses. In principle, this should complement or reduce effort required by the Transmission Operator to achieve efficient operation, provided the various levels of approximation do not create perverse incentives for some locations or times. Oxera analysis indicates that the effect of locational transmission losses as a signal for siting decisions with the aim of reducing transmission losses in the long term is in practice insignificant, even if applied in the 'average loss factor' manner proposed by P198/203. However, cost benefit analysis indicates P204 could reduce the cost of losses, albeit by very small amounts relative to the total cost of losses or other electricity related costs, and subject to many uncertainties. Therefore BSC Objective B should be better met, though taken in proportion with other costs this effect would be likely to be relatively small.</p> <p>BSC Objective C relating to competition:</p> <p>By seeking to reflect the cost of losses on individual locations according to the relative contribution a location makes to total losses, existing subsidies between locations should be reduced and competition thereby enhanced. By scaling marginally determined loss factors with the intention that actual total losses would, on average, simply be apportioned differentially between different locations, rather than charging some locations in order to credit others, the extent of windfall gains and losses between parties and the significance of misallocations in them would be reduced. Misallocations for individual locations and parties would be inevitable because of pragmatic assumptions and approximations such as zonal averaging; seasonal averaging and ex-ante determination. Under other proposed loss schemes such as P82/P198/P203, the size of the transfer between parties would be very large compared to the potential benefit in reduced total losses, and any misallocation would be proportionally large, and could be unfair and anti-competitive. This proposal reduces the gross transfer between locations and therefore the potential for that transfer to be partly or entirely 'erroneous' (even according to the underlying principles that P82/P198/P203 purport to achieve). Although Oxera analysis estimates that loss reductions to be expected from P204 or similar schemes P198/203 are relatively small compared to the gross transfers between locations, suggesting misallocations could be significant; and although existing investments would be subject to imposed step changes in value and an additional uncertainty would be created for future activities, on balance we believe BSC Objective C would be better met by P204.</p>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
2.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties?	Yes / No	Parties with existing investments/contracts face step changes in the value of those assets for any scheme introduced to allocate the cost of transmission losses locationally. Without a method of hedging against imposed changes in the charging regime, there will be windfall winners and losers amongst existing investments and subsequently between future investments. (See response to question 7). P204 limits the extent of such windfall gains and losses between parties, compared with other proposals P198/203, while retaining much of the estimated cost benefit.
3.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital?	Yes	Any shift from uniform sharing to locational distinction will create uncertainty over future transmission loss liability, with the charge faced by individual locations depending on both the actions of other parties at other locations, transmission network operation and development, and the action of the regulator in this or other future changes. We believe this represents regulatory risk and will increase the cost of capital for future investments. However, we believe this effect will be significantly reduced under this proposal compared to other proposals P75/P82/P198/P203.
4.	Do you support the implementation approach described in the consultation document?	Yes	1 April 2008 / 1 October 2008 should be achievable in the timescales indicated in the assessment report, subject to the stated assumptions on the timing of an Ofgem decision and no appeal of that decision being considered. These dates conveniently correspond with renewal of many industry contracts.
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?	No	Potential distinction between peak and offpeak periods has been rejected by the modification group.
6.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes / No	Not at this time (but see response to question 7 below)

Q	Question	Response	Rationale
7.	Are there any further comments on P204 that you wish to make?	Yes / No	<p>Oxera estimate that the benefit of P204 (seasonal) in reducing losses is about 50% that of P203 (£8.3m vs. £17.8m in 2006/07), while the gross transfer between locations is about 20% that of P203 (£67m vs £304m in 2006/07), determined by adding amounts paid from northern generators &amp; southern suppliers to amounts paid to northern suppliers/southern generators. In either case the effective gross transfer between locations far exceeds the estimated overall benefit. However, under P204 the relative size of the benefit relative to the gross transfer is twice that of P203, so the effect of any misallocations (arising from approximations in the methodologies) on gross transfers is significantly lower compared to the benefit. For example, a 10% misallocation between locations would be more than the benefit of the scheme under P203, but not under P204. In addition, because P204 seeks to avoid actual credits for losses, on average everyone is paying between nothing and something towards losses and there is less opportunity to claim that approximations are causing parties to actually pay others unfairly.</p> <p>The P198/203 methodology creates gross cash/energy flows from some parties to others. This seeks to imitate the flows which would be expected to occur in an idealised market situation where a party should be willing to pay another party for any benefit created by the action of the other party. However, in reality there is no market for losses and no rights to losses allocations; the loss 'benefits' provided by some BM Units are largely a secondary consequence of other commercial decisions, and imposing such a scheme represents a regulatory charging regime with increased risk for participants.</p> <p>P204 seeks to mitigate the unmanageable and potentially erroneous 'windfall gain/loss' elements of P198/203 whilst retaining a locational element of loss charging to reduce existing cross subsidy and provide signals for efficient despatch in future.</p> <p>P204 implicitly assumes that a party does not have an automatic right to be paid for an activity which has a social benefit, particularly where that action would have been undertaken anyway. Instead, it implicitly accepts that such a party should not be required to pay as much towards the total social cost as another party which provides less benefit or in turn one which adds to the social cost, with the best possible outcome for a location being no payment at all, as would be the case for contracted generation and demand situated at the same location with no loss between them.</p>

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment

Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **18 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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