

Responses from P203

Consultation Issued 17 July 2006

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Good Energy Ltd	P203_AR_001	1	0
2.	National Grid	P203_AR_002	1	0
3.	E.ON UK plc	P203_AR_003	13	0
4.	International Power plc	P203_AR_004	4	0
5.	RWE Trading GmbH	P203_AR_005	11	0
6.	EDF Energy	P203_AR_006	9	0
7.	SAIC Ltd. (for and on behalf of ScottishPower)	P203_AR_007	7	0
8.	BizzEnergy Limited	P203_AR_008	1	0
9.	ConocoPhillips	P203_AR_009	2	0
10.	Scottish and Southern Energy	P203_AR_010	5	0
11.	British Energy	P203_AR_011	5	0
12.	Gaz de France ESS	P203_AR_012	1	0
13.	Centrica	P203_AR_013	9	0

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

Respondent:	<i>Alice Waltham</i>
Company Name:	<i>Good Energy Ltd</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>Good Energy Ltd (PURE)</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>0</i>
Non Parties represented	<i>N/A</i>
Role of Respondent	<i>Supplier</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	<p>Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)</p>	No	<p>We believe the Proposed Modification P203 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 the economic modelling used in the cost-benefit analysis does not represent market conditions. The generation coming online in the south in circa 2012 indicates that other factors such as TNUOS are already providing a clear locational signal. Therefore it is not clear to us that P203 will have any additional impact on the location of generation, beyond that already given by TNUOS. We feel that the strong incentive on suppliers to balance their supply to demand will reduce the ability of generators to change their dispatch. Therefore we feel that the impact P203 would have on dispatch is ambiguous. 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 generation would be disproportionately impacted by the modification as there is a restriction on the locations that are suitable for renewable generation. By their nature wind and wave generation are unable to change their dispatch. Hydro, tidal and CHP power only has a limited degree of control. This would also have an impact on suppliers that purchase significantly from renewable generation.</p> <p>We believe that the Proposed Modification would not better facilitate BSC Objective (d). We feel than the modification would add complexity and cost, therefore reducing efficiency.</p>

Q	Question	Response	Rationale
2.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	<p>We feel that P203 will have a disproportionate impact on renewable generation, as outlined above. We believe it will also have a disproportionate impact on microgeneration connected through NHH (non half-hourly) metering, as any responsive variation in their dispatch is not measured since NHH metered generation is treated as a uniform rated baseload.</p> <p>We believe P203 will have a disproportionate impact on small suppliers as the costs associated with changing systems are proportionally greater. This is anti-competitive as small suppliers are also unlikely to receive any of the perceived benefits to this proposal as they have a smaller generation portfolio and are therefore even less likely to be able to vary their dispatch. This is particularly the case for suppliers that purchase significantly from renewable generation.</p>
3.	Do you believe that Proposed Modification P203 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	Yes / No	
6.	Does P203 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 P203 that you wish to make?	No	

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Please send your responses by **12 noon on Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	<i>Andrew Truswell</i>
Company Name:	<i>National Grid</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>National Grid Electricity Transmission plc</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>None</i>
Non Parties represented	<i>N/A</i>
Role of Respondent	<i>Transmission Company</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	Neutral	We are neutral as to whether Proposed Modification P203 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 it is therefore difficult to quantify the extent to which the operation of the transmission system would become more economic. Additionally, in order to obtain the overall reduction in losses, there would be a redistribution in the allocation of losses between parties which may hinder competition, and therefore fail to facilitate objective (c), the promotion of effective competition in the generation and supply of electricity. Finally, the introduction of a zonal transmission losses scheme would significantly increase the costs and complexity of the BSC arrangements, thereby potentially failing to facilitate objective (d), the promotion of efficiency in the implementation and administration in the balancing and settlement arrangements.
2.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	No	Although there may be significant redistributive impacts of Proposed Modification P203, 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 Proposed Modification P203 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.

Q	Question	Response	Rationale
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 P203 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 P203 raises any issues that have not been identified so far.
7.	Are there any further comments on P203 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 Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

Respondent:	<i>Name</i> Ben Sheehy
Company Name:	E.ON UK plc
No. of BSC Parties Represented	13.
Parties Represented	<i>Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).</i>
No. of Non BSC Parties Represented (e.g. Agents)	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.
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributors / other please state ¹)</i>
Does this response contain confidential information?	No.

¹ Delete as appropriate – please do not use strikeout, this is to make it easier to analyse the responses

Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	Yes / No	<p>P203 better facilitates the achievement of Applicable BSC Objectives (a), (b) and (c).</p> <p>Objective (a) is better facilitated in two ways. Firstly, the licensee will be able to discharge its obligations more efficiently with the market distortion of uniform charging for transmission losses removed. Secondly, the licensee's discharge of its non-discriminatory obligation will be enhanced, as charges for variable transmission losses will correspond to the extent to which BSC Parties cause them.</p> <p>Objective (b) is better facilitated as the cross subsidies inherent in the existing charges will be removed, leading to more efficient and economic short-term plant generation decisions and long-term plant investment decisions.</p> <p>Objective (c) is better facilitated as cost-reflective charging for variable transmission losses will enhance competition. Uniform charges are contrary to market principles and hinder the ability of competitive generation and retail businesses to reflect these costs in their tariffs.</p>
2.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes / No	P203 merely seeks to allocate the costs of variable transmission losses in a way that is fairer than uniform charging. Therefore it removes the disproportionate impact of the current TLM calculation and so will have a more proportionate impact on every class of Party.
3.	Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes / No	E.ON UK does not have evidence to question Oxera's findings in their analysis for Proposal P198: that any risk is both forward-looking and diversifiable, and will not have an impact on the cost of capital.

Q	Question	Response	Rationale
4.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes / No	It is an area of consensus that the Modification Group has considered carefully.
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	
6.	Does P203 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 P203 that you wish to make?	Yes / No	

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Respondent:	<i>Libby Glazebrook</i>
Company Name:	<i>International Power plc</i>
No. of BSC Parties Represented	<i>4</i>
Parties Represented	<i>Deeside Power Development Co Ltd, First Hydro Company, Rugeley Power Generation Ltd, Saltend Cogeneration Company Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>None</i>
Non Parties represented	<i>None</i>
Role of Respondent	<i>Generator</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	Yes	<p>The CBA demonstrates that P198 better facilitates objective b as the reduction in losses (and generation cost savings of between £3m and £8m per year) will improve the efficient and economic operation of the system (objective b). The CBA notes that P203 delivers a further improvement in cost savings compared to P198.</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 a increased charge for transmissions losses, ROCs (and also wind strength) play a far bigger factor.</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 Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	P203 will create winners and losers in the longer term for existing generation assets.
3.	Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	No	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 P203 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 P203 that you wish to make?	No	

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Respondent:	<i>Bill Reed</i>
Company Name:	RWE Trading GmbH
No. of BSC Parties Represented	11
Parties Represented	<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>
No. of Non BSC Parties Represented (e.g. Agents)	None
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributor / other – please state ¹) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	Yes	We believe that the modification proposal better facilitates the relevant BSC objectives for the reasons set out in the original modification proposal. In particular, the modification will remove market distortions and discrimination inherent in the present arrangements (thereby better meeting Objective A) and the proposal will remove cross subsidies in the present uniform charging arrangements by introducing a cost reflective basis for allocating losses with a consequential improvement competition (thereby better meeting Objective C).

¹ Delete as appropriate – please do not use knockout, this is to make it easier to analyse the responses

Q	Question	Response	Rationale
2.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	No	The modification would remove the current cross subsidies and associated discrimination that is inherent in the uniform allocation of transmission losses.
3.	Do you believe that Proposed Modification P203 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	The approach adopted is pragmatic and based on P82.
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 P203 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 P203 that you wish to make?	No	

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Respondent:	David Scott
Company Name:	EDF Energy
No. of BSC Parties Represented	9
Parties Represented	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; London Energy plc; Seeboard Energy Limited
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	0
Role of Respondent	Supplier/Generator/ Trader/Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	<p>Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)</p>	No	<p>We do not believe that the Proposed Modification P203 will better facilitate the BSC Objectives for the following reasons.</p> <p>The locational signals provided by P203 would have a negligible effect on the siting of new generation capacity as TNUoS charges already provide these. This point is substantiated by the fact that 90% of proposed CCGT projects identified in NGET's 2006 SYS are in the Southern half of Great Britain. Also, with TLFs varying with the location of new, and closure of existing plant on the system, the locational signals could be inconsistent (particularly with TNUoS) and unlikely to influence the location of new plant. The cost benefit analysis concludes that P203 will lead to more efficient economic despatch – we dispute this on the grounds that an economic despatch model (as used by Oxera) may not be representative of market conditions. In particular, fuel costs (especially when the gas/coal spread is high), potential changes to TEC and other operational factors such as plant dynamics are likely to have a much more significant impact on a plants decision to run or not to run than a zonal loss charging scheme. Other factors like environmental limits (particularly for coal plant) are also much more likely to dictate running patterns than zonal loss charging. We therefore see no clear evidence to suggest that the operational benefits of P203 will be realised. Further, any benefits that may be seen as a result of plant re-despatch will only be short-term as proposed new generating capacity in the South displaces some of the older and less efficient plant in the North. It can therefore not be said that the Modification will better facilitate the economic and efficient co-ordination of the transmission system (Objective B).</p>

Q	Question	Response	Rationale
			<p>We have doubts as to the validity of the results as provided by Oxera, which, at best are merely an inaccurate representation of the market. The basis for such doubts is the use of only 12 HH settlement periods (Siemens PTI used 623). Each provider's zonal TLFs varied significantly, with some zones, 14 and 10, (North Scotland and South Wales) having seasonal zonal TLFs that apportioning losses in the opposite direction. For instance with Zone 10, the Siemens PTI TLF is positive, yet the OXERA TLF negative, thus providing the opposite despatch signal. Using these to calculate TLMs and overall losses, we find that the impact of changing Siemens PTI's positive TLFs, to OXERA's negative TLFs on stations such as Aberthaw, is significant. We believe that any appointed TLF agent will, depending on their method, produce different TLFs, which will be gross approximations on the marginal affect on losses of trading units.</p> <p>In relation to Objective C, given the substantial sums of monies that would be transferred between different parties as a result of this Modification, it is impossible to see how this will promote competition. This point will be discussed in more detail in question 4 below.</p> <p>Finally, by definition this Modification is detrimental to Objective D – the complexity created by the addition of TLFs to the code can only make the administration of the BSC more difficult. This combined with high implementation and operational costs will not better facilitate this Objective.</p>

Q	Question	Response	Rationale
2.	<p>Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties?</p> <p>Please give rationale</p>	Yes	<p>The Oxera analysis highlights the magnitude of the movement of monies between parties under an annual zonal losses scheme [P198] – generators in the South would be £85 million better off to the detriment of Northern generators in the first year of the scheme. Similarly, Southern suppliers would see their costs increase by £73 million whereas Northern suppliers would see their costs decrease by this amount.</p> <p>OXERA only provided estimates in the cost benefit analysis for Zonal losses under P198; the redistribution of sums has not been presented for P203, under Zonal Seasonal Loss Factors. It is assumed that it will be higher than for P198, yet the Modification group has not had this substantiated.</p> <p>.</p> <p>Demand does not have the ability to appropriately respond to the signals provided by a zonal loss scheme, and some types of generation would find it difficult. For example, intermittent generation like wind energy cannot choose when it generates. The Renewables Obligation Scheme also means that these types of generation would not respond even if they could as the incentive to generate is provided by the ROC's which they receive - these have a significantly higher financial incentive than the impact of zonal loss charging. Other types of generation like Combined Heat and Power are also constrained in their ability to respond to locational loss charging signals as many are contracted to provide heat as well as electricity. Nuclear Power, which accounts for approximately 21% of UK generation, would also be unlikely to respond to the signals provided by zonal loss charging as these plants run at baseload and cannot easily turn on and off.</p>

Q	Question	Response	Rationale
			In light of this, it would be fair to say that P203 will have a disproportionate effect on different parties not least because of the substantial movement of monies that will occur. It is also true to say that certain types of generation, and demand in general, will struggle to respond to any signals that P203 might provide. For these parties, transmission losses will simply be an additional cost on the bottom line. We also believe that the immediate introduction of zonal losses will adversely affect BSC parties with long term contracts, such as major power purchases, fixed customer tariffs and I&C customer contracts.
3.	Do you believe that Proposed Modification P203 would have an impact on perceived risks 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.
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.	Does P203 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 P203 that you wish to make?	Yes	<p>In summary, we are not convinced by the arguments put forward by the proposer that P203 “will influence both short term plant despatch and long term business decisions”. The impact on short-term despatch is questionable and any benefit that may arise would only be short lived anyway as new plant comes on line in the South; long-term signals are already clearly being provided by other means, so it is doubtful that a zonal losses scheme will have any impact on these decisions.</p> <p>We would also again like to highlight our concern at the very significant, unanticipated movement of value between parties – who cannot respond by moving their large, static power station investments - which can only serve to increase regulatory risks in the sector as a whole, in a climate when major investment in new generation capacity is urgently needed for national security of supply.</p> <p>On a final point, we are concerned at the very short length of consultation period for such an important change, especially considering that the P200 consultation period runs in parallel. This may result in industry not being able to comment fairly on these changes.</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.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	No	<p>ScottishPower do not believe that a seasonal zonal transmission losses scheme as proposed in P203 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P203 would jeopardise the achievement of these Objectives.</p> <p>Against applicable BSC objectives:</p> <p>Objective (a) The proposed modification discriminates against certain parties while favouring others through the transfer of capital value and windfalls.</p> <p>Objective (b) This modification does not generate the sought</p>

Q	Question	Response	Rationale
			<p>after long term locational signal. It gives an inconsistent, contradictory and uncertain short term signal through despatching. The CBA analysis for P198 is based on a central despatch model, whereas NETA is based on a self despatch model. Therefore there is a questionable reduction in losses, and a potential loss of efficiency.</p> <p>Objective (c) This modification will create a windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which is a barrier for new entrants, and an increased implementation cost for existing parties – both bad for competition. This is detrimental to promoting effective competition.</p> <p>Objective (d) This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency.</p>
2.	<p>Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale</p>	Yes	<p>Implementation of P203 would lead to increased costs for several classes of Parties. 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</p>
3.	<p>Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale</p>	Yes	<p>ScottishPower believe that there would be an impact. The effect of implementing P203 would be to increase the perceived regulatory risk associated with the electricity supply industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Any form of regulatory risk would effect future investment</p>

Q	Question	Response	Rationale
			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, we believe all viable alternatives have been explored
6.	Does P203 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	There are environmental issues which should be identified and progressed, as well as the potential impact on consumers. Parties receiving windfall gains are unlikely to pass any savings onto customers. Parties who are windfall losers will have to pass price increases onto customers to cover costs. A risk would be that any future shortfall in Southern generation could lead to an increase in bid price as Northern generation recoup costs.
7.	Are there any further comments on P203 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 Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

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

Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	No	As supported by the majority view of the Group, we believe that the unproven marginal benefit to Objective (b) is far outweighed by the detrimental impact on Objective (c). It is far from clear that transmission charging/loss charging are key factors in the locational decisions of BM Units. Indeed the Oxera analysis “considered that the impact of the P198 signals on new-build decisions was uncertain in relation to other non-cost issues, such as planning permission and land availability”. Competition in the supply and sale of electricity can only flourish where the cost base associated with such a venture is perceived to be stable. This is of critical importance in an industry where the cost of capital is very high, profit margins are very low and investment timescales are long. Any proposal that seeks to redistribute funds between parties on a ‘windfall’ basis is distortionary and a de-stabilising influence in the market.
2.	Do you believe that Proposed Modification P203 would	Yes	Parties will be disproportionately affected according to whether they

Q	Question	Response	Rationale
	<p>have a disproportionate impact on any class or classes of Parties? Please give rationale</p>		<p>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.</p> <p>Parties with generation will be disproportionately affected according to the size, type and location of generation assets. A generator with assets in a 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&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 Proposed Modification P203 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>
4.	<p>Do you support the implementation approach described in the consultation document? Please give rationale</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 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</p>

Q	Question	Response	Rationale
			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 P203 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 P203 that you wish to make?	Yes	<p>A sudden shift in the cost base of suppliers (whether justifiable or not) creates the impression that pricing signals in the market are not fixed. This not only undermines the confidence of potential entrants but also the confidence of consumers.</p> <p>The investment decisions that this sort of proposal seeks to influence are long term. If the perception is that costs are subject to change this not only undermines the effectiveness of the latest modification but also the effectiveness of existing cost messages as they are not seen as fixed.</p> <p>P203 seeks to remove the phasing element of Alternative Modification P198. We note that Oxera's CBA mentions that fact that 90% of potential CCGT is already planned to be in the south and considers that "any long term impacts of P198 were unlikely to be realised until beyond 2015".</p> <p>If this is the case, and we believe it is, removing the phasing element has no immediate benefit yet amplifies the distortionary and anti-competitive elements of the Proposal by producing the "windfall" effects already discussed.</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 Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

[P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

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

Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	No	P203 contains all the competitive defects of P198 and exhibits them to a much greater degree because of the additional risk that arises from seasonal (as opposed to annual) zonal loss factors, but non of the mitigating benefits (relative to P198) of P200. It is also inferior to P198 alternative as there is no phasing to help off-set some of the competitive detriments. See our response to P198 (attached), which applies unless changed in this response.

Q	Question	Response	Rationale
2.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	The modification has a particularly disproportionate effect on non-portfolio generation. Plant such as CHP that tends to be in northern areas and where electrical production is often secondary to the production of steam will simply see an unavoidable tax. The change would be particularly detrimental to generation in remote geographical areas, and could create barriers to entry for renewables plant at the margin. More generally it will increase market complexity, which impacts adversely against smaller players relative to larger ones.
3.	Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes	The principle – and associated defects – are the same as under P198. The cost of capital will increase, which is particularly relevant to ICHP phase 2, which is currently at the planning phase.
4.	Do you support the implementation approach described in the consultation document? Please give rationale	No	If a change to seasonal loss factors is to be contemplated, phasing is essential.
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 P203 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 P203 that you wish to make?	Yes	<p>P203 is yet a further modification with regard to charge arrangements for transmission losses. The persistent reiteration of this issue is introducing significant uncertainty into the running of and budgeting for our business.</p> <p>Consideration needs to be given to the current modification rules that permit the identification of only one alternative. If the modification process is to be effected in an orderly manner, all reasonable alternatives to the main proposal should be identified and progressed as part of the main proposal. Once an issue has been dealt with and ruled upon by Ofgem (e.g. P82), the principal matter addressed by a modification proposal should be <i>ex agenda</i> for a minimum of two years and five years where a new proposal has essentially the same effect as a previous one.</p> <p>ICHP believes a much better approach to the management of zonal transmission losses is to place clear incentives on National Grid as system operator to limit the cost of these. This would increase efficiency without the competitive detriments associated with P198, P200, P203 and P204.</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 Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P198 SECOND ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

Respondent:	<i>Kirsten Elliott-Smith</i>
Company Name:	<i>Immingham CHP</i>
No. of BSC Parties Represented	<i>2</i>
Parties Represented	<i>Immingham CHP LLP ConocoPhillips (U.K.) Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>Generator</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	<p>Do you believe that Proposed Modification P198 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)</p>	No	<p>ICHP strongly opposes P198, and believe 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 P198. Even then the signal for short-term despatch is lagged and is not actually reflective of within year drivers.</p> <p>The potential impacts of P198 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. Oxera touched on this but concluded that “the effect of P198 in this area was ambiguous” (assessment report, p71). These distortions are aggravated by the use of different generation zonal configurations for TNUoS and losses purposes.</p> <p>Over the longer-term, Oxera also noted that any longer-term locational impacts of P198 would not be realised until beyond 2015, greatly reducing the claimed benefits of the change. They also observed that the effect on new build decisions was uncertain. (assessment report, p71), which is major gap in our knowledge from the assessment phase.</p> <p>The cost and complexity of the change is significant and on the basis of the Oxera analysis understated. 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>

Q	Question	Response	Rationale
			<p>Locational effects are also dependent on other parties' behaviour. An operator located next to peaking plant could be very adversely affected by something it can neither predict nor control. The example analysed by the group, Hunterston B, illustrates the volatility of the arrangements under P198, and show the randomness of the effects caused by plant retirement.</p> <p>Overall, P198 can be expected to have no more than a neutral effect on applicable objective (b) because the costs to the market and the increased complexity are probably comparable to the savings from redespach directly attributable to this change. Given the conclusions that longer-term signals could be ambiguous, we conclude that the proposal overall would have a negative effect against this objective.</p>

Q	Question	Response	Rationale
			<p><u>Competition</u></p> <p>P198 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. We do not accept Oxera's conclusion that the risk associated with P198 is a diversifiable risk, and would further comment that it introduces a further unmanageable risk for certain types of participant. We note the comment at p73 that "Some members... believed that economic counter arguments could be put forward to demonstrate that the impact of P198 in these areas [of risk and cost of capital] could be significant", and agree with it.</p> <p>It is also relevant that integrated players tend to have a natural hedge because of their regional spread. In particular P198 has a more pronounced impact on non-portfolio players. By increasing market complexity and disadvantaging remaining independent generators in the North and Scotland, P198 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.</p>

Q	Question	Response	Rationale
			<p>Demand too is largely inelastic and cannot move in the short- to medium-term, a factor acknowledged by Oxera. It is highly undesirable, given the vast amount of sunk investment, to create such incentives.</p> <p>Similar arguments apply to renewable development, which has limited choice over location. In this regard, it is not appropriate to argue, as Oxera do, that the negative effects of TLFs on renewables would be offset by the protection afforded by the Renewables Obligation. The market premium enjoyed by renewables is part of the counterfactual, and is a directly relevant factor in quantifying the effects of P198.</p> <p>Imposing P198 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 P198 measured against applicable objective (c) is significantly negative, penalising existing investment decisions and causing a negative impact on competition. The existing arrangements do not represent a cross subsidy any more than BSUoS charging, half hourly energy pricing or the use of profiles (all of which are averaged or approximations). Looking forward, as we have noted, the change increases market complexity and risk, and we do not agree this risk is diversifiable.</p> <p><u>Efficiency in BSC arrangements</u></p> <p>The cost and complexity noted above lead us to believe that P198 would create a net disbenefit under objective (d).</p>

Q	Question	Response	Rationale
2.	Do you believe that Alternative Modification P198 would better facilitate the achievement of the Applicable BSC Objectives compared with the Proposed Modification? Please give rationale and state objective(s)	No	Phasing is to be preferred as the lesser evil, as it will mitigate for a brief period the adverse effects of P198 original, in particular by delaying the full impact of the detrimental competitive effects. However, ICHP does not support the inclusion of seasonal TLFs.
3.	Do you believe that Alternative Modification P198 would better facilitate the achievement of the Applicable BSC Objectives when compared with the current Code baseline? Please give rationale and state objective(s)	No	Our answers to question 1 apply here. The only difference is the degree to which the arguments hold, owing to the mitigating effects of phasing under the alternative.
4.	Do you believe that P198 would have a disproportionate impact on any class or classes of Parties? Please give rationale	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>
5.	Do you believe that P198 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes	The change would impact adversely on risk and competition in the marketplace. We estimate that these effects are such that they could impact on sectoral financing costs and could be regarded as creating a further barrier to entry.
6.	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.

Q	Question	Response	Rationale
7.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale</p>	Yes / No	<p>In abstract terms, a zonal losses scheme that produces accurate dynamic losses could have merit, but subject to three important provisos:</p> <ul style="list-style-type: none"> (i) it should not apply to already committed and consented plant unless introduced in tandem with a mitigation scheme such as P200 (ideally something simpler) (ii) there should be evaluation of what the “right” level of locationality should be, and changes introduced to ensure consistency in transmission pricing (with losses, constraints and investment signals unified) (iii) factors should be meaningful, that is they should reflect the costs of operation within year, though introducing such a mechanism is by no means straightforward without introducing immense complexity.
8.	<p>Does P198 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</p>	Yes	<p>ICHIP is disappointed that an SO- or TO-focused approach to management of transmission losses has not been considered in parallel with P198. 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.</p>

Q	Question	Response	Rationale
9.	Are there any further comments on P198 that you wish to make?	Yes	Five different approaches to the charging of losses have been proposed since Neta go-live, and three different mitigation schemes have been brought forward. There has also been one successful judicial review. It is now essential that after the current raft of proposals is taken to report stage that the matter is left off the table.

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 Friday 14 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P198 Second 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

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Our Reference:

Your Reference:

Date : 28th July 2006

Dear Kathryn,

Consultation on Assessment of P203 ‘Introduction of a Seasonal Zonal Transmission Losses Scheme’

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

For the avoidance of doubt, nothing that we say in this response should be construed, in any way, as lending support for P203.

Qu 1. Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)

We do not believe that Proposed Modification P203 better facilitates the achievement of the Applicable BSC Objectives when compared with the current Code baseline. This is consistent with the initial view of the P203 Modification Group. Indeed, we are not clear that a defect actually exists. A significant quantity of new thermal generation is expected to come on-stream during the next decade. Completely independent of P203, the vast majority of this will be located in the southern half of GB. This is a strong indication that the appropriate locational signals already exist and that the benefits linked to P203 are not P203-dependent.

The following sets out in more detail the reasons for this view.

(i) The combination of TNUoS and zonal losses is not cost-reflective

We believe that the introduction of zonal losses would conflict with existing pricing signals in the transmission pricing methodology of NGET, which is already approved by the Authority. In our view, exposure to both zonal losses and TNUoS would result in an inefficient mechanism, which would overstate the cost of plant locational decisions. This ‘double’ locational signal would, if P203 was approved, require revisiting the existing TNUoS charging methodology.

Based on current levels of transmission charging, a 1,500 MW power station in northern Scotland pays around £30 M per annum TNUoS. P203 would impose an additional payment of around £10 M

per annum (based upon the PTI modelling). This would take its total locational **payment** to nearly £40 M per annum. In contrast, a similarly sized power station in southern England would receive a TNUoS payment of £9 M and be credited a further £4 M through P203 (again based upon PTI modelling for P198). This southerly-located station would, therefore, **receive** a locational payment of £13 M per annum. We do not consider that these locational signals would be cost-reflective.

(ii) Inability of existing plant to react to zonal signals

All large power stations require explicit planning approval before they can be built. This approval is given by the Department of Trade and Industry (DTI) (in England and Wales) or the Scottish Executive (in Scotland) via a Section 36 consent (which is, in effect, planning permission). In addition, the DTI issues all thermal plants with a Section 14 approval. The location and operation of all large power stations in GB has, therefore, been explicitly agreed/approved by central Government.

P203, irrespective of any previous approval from Government, would impose a penalty on those power stations located away from areas of demand. Peterhead power station in northern Scotland could not physically be moved to Petersfield in southern England.

Equally, a large industrial user of electricity could not relocate from southern England to northern Scotland. Far more likely is that such users will cease production here/relocate to a different part of the world. We note, in this respect the report by Reuters this week that Alcoa, the world's largest producer of aluminium (which is an electricity intensive process) is considering idling two plants in Italy (imperilling 1,000 jobs) because of regulatory changes impacting on their electricity price.

Importantly, even if possible, this behaviour of relocating generation would not deliver an efficient and effective electrical system. System stability is dependent upon generation being located throughout the network.

As a consequence, the application of zonal losses will not result in re-organisation of plant location to produce an 'optimum' network. Instead, the proposals will merely redistribute value between existing generators, producing windfall gains and losses.

(iii) Impact of P203 is significant

Taken together, points (i) and (ii) have a significant economic impact on generation plant. Oxera's work identifies an overall re-distributional transfer of £158 M (£73 M through demand, £85 M through generation). For an individual generator in the north, this equates to an incremental annual cost of many millions.

There is, therefore, a risk that such large swings in value could force exiting plant located in the north to close or mothball capacity earlier than is efficient. This would have a negative impact on plant margins and system security at a time when the industry is facing significant challenges in terms of building substantial new capacity.

(iv) Regulatory risk

Approval of P203 would significantly increase the regulatory risk associated with new generation build in GB. This would impose a premium on the cost of capital for both new and existing generation.

This arises because, as described above, the implementation of zonal losses will produce significant winners and losers. The operators of such plant could not realistically have expected value shifts of this magnitude and, as a consequence, perceptions of regulatory risk for the sector will, all other things being equal, increase.

The Energy Review identified an expected need in the UK of "around 25 GW of new electricity generation capacity by 2025". It is, therefore, clear that even a modest increase in the cost of capital of a few basis points could offset the potential benefit suggested by Oxera (£3.5 - £9.9 M).

(v) Signal is flawed

If P203 was implemented and plants responded to the economic signals and relocated (putting aside the obvious practical difficulties), the following year that economic signal would change and the incentive that instigated the change would reduce or disappear. It is, therefore, a very uncertain and unreliable signal. A party looking to build, for example, a power station in the south would be unable to 'bank' on the perceived benefit of its locational decision, as that benefit would disappear as soon as the station was commissioned (and the relevant loss factors were recalculated).

Again, it is important to note that generation needs to be located and operated throughout the network.

(vi) DTI Decision on BETTA

In designating the GB BSC for the introduction of BETTA, the Secretary of State excluded provisions relating to zonal losses. The introduction of P203 would, therefore, demonstrably be inconsistent with the intent of the legislation to introduce BETTA.

(vii) Environmental impact

We believe that P203 will impair the achievement of Government's stated renewable generation objectives. It is recognised that most renewable developments will be sited in Scotland, and in particular, in northern Scotland. Approval of P203 would, therefore, by definition, increase the cost of renewable generation and this could undermine new wind/wave technologies and offshore wind, for which the economics are already challenging. We, therefore, question whether approval of P203 would be consistent with the Authority's duty to have regard to sustainable development.

Given the potential substantial impact of P203 on new and existing renewable generators, many of which are located in extreme parts of the network that would attract a high loss factor under the proposals, we believe that implementation of P203 could be inconsistent with the Renewables Directive.

Given the location of GB plant - 1.3 GW of hydro in northern Scotland, large quantities of environmentally efficient plant such as gas-fired CCGTs and FGD-equipped plant in the north and less environmentally efficient OCGTs and oil-fuelled plant in southern GB, we are not certain that there will be any overall environmental benefit from this proposed change. Indeed there is the potential that generation output from the most benign environmental plant would be reduced, whilst the most environmentally damaging plant would increase their output. We believe this could be in excess of the reduction in emissions from any potential reduction in transmission losses claimed for the original P203.

Indeed, noting that new emissions limits will cap operation of more carbon-intensive plant, even if certain plant (opted-out limited hours coal plant) could increase their running, this would simply advance the date of their closure with its consequential effect on security of electricity supply.

(viii) Inconsistency of locational signal

Looking specifically at northern Scotland, figure 3 (pg 11) of the PTI report clearly shows that the intended 'signal' from the introduction of P203 not only varies between seasons, but also within seasons and, indeed in some cases, within month. This finding is repeated throughout the PTI report and reflected in the Oxera report.

At certain times of the year, the signal is to positively locate a power station in northern Scotland. At other times the signal is directly opposite. It is, therefore, difficult to see how either a generator or customer can make a locational decision based upon such an inconsistent signal. It cannot, on any reasonable interpretation, be said to be 'long term'.

(ix) Analysis critique

Whilst PTI has examined 623 half-hourly periods in a year (3.5% of the total), Oxera's analysis relies upon just 12 periods (or 0.068% of the total). As a result, as shown in Figure 2.3 (pg 9) of the Oxera report, comparison of the adjusted seasonal zonal TLFs with those of the PTI shows significant variations, which in some cases are diametrically opposite. For example, in northern Scotland, the "Summer" graph shows PTI indicating a 'positive' TLF whilst Oxera indicates a large 'negative' TLF. Equally, in "Spring", whilst both PTI and Oxera show a 'negative' TLF, the Oxera figure is circa one third larger. Similarly, in "Autumn", there is a significant difference between the PTI and Oxera data. We can, therefore, only conclude that there is a major difference between the modelling results of PTI and Oxera (particularly in the Scottish Zones) and that this applies across all four seasons of the year.

Such significant differences, coupled with the extremely small sample used by Oxera, leads us to conclude that the Oxera report is flawed and that the supposed benefit is unlikely to be as large as £3M-£9M per annum.

We also note that both the PTI and Oxera modelling were based on 2005-06 data (see section 2.2.2 (pg 7) of the Oxera report and section 5.2 (pg 10) of the PTI report). Given the well-documented shortage in the gas market etc., which led to higher gas prices in 2005-06 and a noticeable decrease in gas-fired generation output and a corresponding increase in other generation output, such as coal, we believe both models will result in a distorted outcome when compared to the 'actual' TLMs likely to be applied from 1st April 2008 (if P203 is implemented). No detailed consideration of this appears to have been taken into account in the PTI and Oxera work.

At the very least, implementation of P203 should be delayed until these inconsistencies have been fully explained.

Qu 2. Do you believe that P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale

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."

We believe that 132 kV should be excluded from the application of zonal losses if P203 is implemented. This will result in a consistent approach to losses from 132 kV.

Qu 3. Do you believe that P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale

Yes. We refer back to our response to Qu 1 in relation to the impacts on regulatory risk.

Anything as profound as applying a zonal losses scheme, which, according to section 9.1.3 (pg 68) of the Oxera report will see a transfer of £85 M from northern GB generation to southern GB generation 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.

Qu 4. Do you support the implementation approach described in the consultation document? Please give rationale

Whilst we do not believe that P203 should be implemented, we support the implementation approach as described in the consultation document. It seems a pragmatic solution to implement P203 from 1st April 2008.

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

Qu 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 – for the reasons outlined above we do not believe that P203 or any variant of zonal losses should be introduced.

There are, at present, some six zonal losses related Modifications (P198 Original & Alternative, P200 Original & Alternative, P204 and this P203). However, we are not certain, on reflection, that P203 is a suitable Modification. We are mindful of the "Pending Modification" arrangements (as set out in paragraphs 2.1.5 and 2.1.4 of section F of the BSC). It seems on the face of it clear that P203 is all but identical to P198 (see, for example, the opening line of the "Description of Proposed Modification" and the last paragraph in "Description of Issue or Defect that Modification Proposal Seeks to Address" for references to P198) except with respect to a seasonal, rather than an annual figure. This is certainly reflected in both the P203 Modification Proposal itself, the deliberations of the P203 Modification Group and in the P203 Assessment Consultation report.

By allowing this Modification to proceed, it appears that a precedent has now been set for allowing Parties, at various stages in the process, to raise 'new' Modifications which have substantially the same effect as a Modification already under consideration or one that had already been considered by the Modification Group and rejected. In the past the Modification Group has considered only a single alternative, in line with the requirements of the BSC. However, in permitting P203 to proceed the Panel is supporting Parties bringing forward (potentially, as with P203, at a late stage) Modifications which could be said to frustrate the process. We fear that as a result the BSC could descend into the CUSC 'world' of many tens' of Modifications seeking to do broadly the same thing, in a slightly different way. This would be a retrograde step. The "Pending Modification" arrangements were put into the BSC for good reason and should, therefore, be followed - or removed as superfluous.

We would hope that once this current 'batch' has been determined by the Authority that we can, in due course, dispense with further Modifications in this area. Otherwise we are in danger of bringing the whole modification approach into disrepute with a series of 'referendum' on this matter, where supporters of one side of the argument constantly raise change proposals until they get the answer they want – such an approach undermines the whole process.

Qu 6. Does P203 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

We believe that a large quantity of documentation has arisen from this particular consultation. In addition we are mindful that the Government's Energy Review and National Grid's Winter Outlook Update was only published on 11th July and our response to P203 consultation is due in by noon on Friday (28th). There may, therefore, be additional issues that need to be taken into account by Ofgem and the Panel when considering the merits of P203.

Qu 7. Are there any further comments on P203 that you wish to make?

- A further anomaly associated with P203 is that it creates zonal loss factors which in many cases are negative. As it is physically impossible to create energy from nothing it is inappropriate to consider a proposal (P203) which has negative zonal loss factors.
- Importantly, the system operator will have an impact on losses across the relevant zones. For example, generation constrained-on in the north to manage the system will adversely impact upon Transmission Loss Factors (TLFs), and hence all generation, in that zone in subsequent years. It is not clear how generators in that zone are compensated for such system requirements (rather than energy) and NGET's actions.
- We note the statement in the "Description of Issue or Defect that Modification Proposal [P203] Seeks to Address" that:-
"A zonal transmission losses scheme would enable long-term locational signals for losses to be introduced into the GB electricity market."
However, it is clear, from both the analysis of PTI and Oxera that this is not the case.
- We note the statement in the "Description of Issue or Defect that Modification Proposal [P203] Seeks to Address" that:-
"The proposed scheme will enable the variable costs of transmission losses to be allocated on a cost reflective basis and reflected on parties that cause them."
We further note that Ofgem has included (within the pricing regime that incentivises National Grid) an element to cover steps that National Grid can take to reduce transmission losses.
Given that the solution for P203 is to allocate the losses to that Party already identified as being (a) responsible for transmission losses and (b) in a position to reduce them by (i) investing in equipment/assets to reduce transmission losses and (ii) despatching generation to operate in certain locations and then being responsible for moving that electricity from there to demand (which gives rise to transmission losses), namely National Grid, rather than any other BSC Parties.

Conclusion

For the reasons outlined above we do not believe that P203 will better facilitate:

- *BSC Objective A* relating to the efficient discharge by the licensee (NGC) of the obligations imposed upon it by its licence.

A zonal transmission losses scheme will introduce market distortions and discrimination when compared with the present arrangements.

- *BSC Objective B* by enhancing the efficient, economic and coordinated operation by the licensee (NGC) of the licensee's transmission system.

Adoption of a zonal transmission losses scheme will, as shown by the Oxera report, introduce a disproportionate re-distributional cross-subsidy of £158 M from northern generators to southern generators and from southern customers to northern customers.

It will reduce the operation of more economically and environmentally efficient plant (in northern GB) for less economically and environmentally efficient generation (in southern GB). A zonal transmission losses scheme will, therefore, introduce inefficiency through the use of less efficient and less economic generation and will provide a confusing, contradictory, inconsistent, irreconcilable, paradoxical and conflicting long term signal about where generation and demand should locate.

- *BSC objective C* relating to the promotion of effective competition in the generation and supply of electricity, and (so far as consistent therewith) and the promotion of such competition in the sale and purchase of electricity.

It will increase the regulatory risk and cost of capital for existing and new generation investments. It will result in an overall re-distributional transfer of £158 M (£73 M associated with demand and £85 M with generation) amongst various groups for a reported over all saving of circa £3 M-9 M (figures which we believe are highly inflated).

If this £158 M were to be invested appropriately in the capital market it could be expected to achieve a higher rate of return than £9 M per annum – therefore the overall net benefit, of introducing a zonal losses scheme, could be said to be negative and therefore P203 should not be implemented.

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

Yours sincerely

Garth Graham
Scottish and Southern Energy

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

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

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	No	Under P203, the loss attributed to an individual BM Unit would be uncertain and beyond its control, being dependent on the behaviour of other BM Units. The method of derivation of TLFs for use in settlement would create significant but approximate positive and negative allocations of losses to individual BM Units which not only could be larger than the loss attributable to the BM Unit in isolation, but could be in completely the wrong direction for a particular location and time, due to the various approximations made. The proposal would create windfall winners and losers, and the losers would be largely unable to mitigate the costs and risks created. The risk associated with existing and future long term locational investment would be increased. There is no indication that the introduction of P198 would significantly affect locational siting decisions to the national benefit, as losses are a relatively minor factor in such decisions. These factors all act against better meeting BSC Objective (c) relating to competition, even though some small savings in total losses might occur due to slightly more efficient short term despatch of generation.
2.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	Long term locational investments will experience long term windfall gains or losses compared to short term investments which can respond to short term signals. Power stations are particularly affected.
3.	Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes	In our view there can be no doubt that the additional uncertainty caused by a locational allocation of transmission losses based on short term loss factors will affect the cost of capital. NERA's paper 'Regulatory Risk and the Cost of Capital' for Teesside Power Ltd, submitted with their responses to P198 and P200 consultations in June 2006, supports this view.
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	Yes / No	Solutions to the alleged defect? or solutions to the proposed implementation? At this time, we have no alternative solutions to the alleged defect which have not already been raised. We have no alternative solutions to the proposed P203 implementation.

Q	Question	Response	Rationale
6.	Does P203 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	None at this time.
7.	Are there any further comments on P203 that you wish to make?	Yes	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 and no rights to losses allocations, and imposing such a scheme represents a regulatory charging regime with unmanageable risk.

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 Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

Respondent:	<i>Name</i>
Company Name:	<i>Gaz de France ESS</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>0</i>
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>Supplier/Generator</i>
Does this response contain confidential information?	

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	<p>Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)</p>	No	<p>Modification P203 is based upon Modification Proposal P198 with the addition of an element of seasonal variation. Gaz de France ESS holds the same view for P203 as we do for P198. We believe that the apparent beneficial locational messages the proposer ascertains will be enhanced by this modification proposal to be already delivered via the Transmission Network Use of System (TNUoS) charging methodology. The supporting evidence for this is the number of new large scale generation projects being planned for and located in the South as opposed to Northern regions. If Modification Proposal 203 were to be implemented we feel that the BSC Objectives would be adversely affected. Particularly Objectives c) promoting effective competition in the generation and supply of electricity and promoting the sale and purchase of electricity. The current methodology, which is applied in a uniform manner across generation and supply, is fair in that current participants have little opportunity to relocate to a zone which may be, under charges applied on a Locational basis, more favourable. It is highly unlikely that Drax Power Station for example would relocate to a more Southern, and therefore less penal zone. Domestic Demand is even less likely to relocate as a result of higher losses charges being applied to their energy bill. Historically generation located where there was appropriate Transmission Capacity, fuel source access (be that coal or gas) and access to the required workforce not where they would eventually incur the lowest fee for losses if and when a scheme were to be introduced. This Modification Proposal has the potential to introduce significant windfall gains to those with generation in the South or demand in the North but especially those Vertically Integrated companies with Southern generation and Northern Demand. This modification proposal introduces a potential 'double whammy' for end consumers who will see any increased generatioor demand costs passed on immediately but not necessarily the cost reductions associated with demand located in the North or generation in the South.</p>

Q	Question	Response	Rationale
2.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	This Modification Proposal has the potential to introduce significant windfall gains to those with generation in the South or demand in the North but especially those Vertically Integrated companies with Southern generation and Northern Demand. This modification proposal introduces a potential 'double whammy' for end consumers who will see any increased generation or demand costs passed on immediately but not necessarily the cost reductions associated with demand located in the North or generation in the South.
3.	Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes	Due to the fact that the cost benefit analysis carried out originally for modification P198 shows there to be the potential for the reversal of any perceived benefits post 2012. The negative effect is even more pronounced for single plant generators who will not have the additional benefit from a portfolio effect
4.	Do you support the implementation approach described in the consultation document? Please give rationale	No	We do not support a modification to the current losses regime as proposed therefore do not support the proposed implementation approach
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	Transmission Losses occur across the Transmission System, which is managed by the National Grid Electricity Transmission company. There is no reference in this document about the impact their actions have upon the amount of 'Losses', which occur across the Transmission System. This may require further analysis
6.	Does P203 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 P203 that you wish to make?	Yes	<p>Though out of scope for the modification group and panel we would look to Ofgem, using their wider regulatory powers, to ensure that the full impact and effect upon the environment is taken into account. For example, justifying the appropriateness of facilitating additional windfall gains to generation with higher environmental emissions located in the South.</p> <p>As stated in our answer to question 1 above, we believe there to be locational messages already in existence due to the impact of the TNUoS scheme. For generation such as renewables who must locate in the North due to the existence of suitable sites the introduction of Zonal losses will have very little effect, other than to increase one element of the charges that they ultimately face. This type of generation will not be able to relocate in the South, therefore the additional costs will ultimately be factored into their running costs, ultimately feed through to cashout and be borne by the end consumer.</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 Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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

Respondent:	Dave Wilkerson
Company Name:	Centrica
No. of BSC Parties Represented	9
Parties Represented	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
No. of Non BSC Parties Represented (e.g. Agents)	–
Non Parties represented	–
Role of Respondent	(Supplier/Generator/ Trader)
Does this response contain confidential information?	No

Q1: Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline?

Please give rationale and state objective(s)

No

Centrica does **not** believe that Proposed Modification P203 would better facilitate any of the Applicable BSC Objectives.

Oxera have performed a cost-benefit analysis of the impact of a zonal losses scheme on the market over the next ten years, and have estimated the total net benefit as between £20-£65m. As part of this analysis they have suggested that between £3m-£9m per annum could be achieved by re-despatch of plant responding to the locational signals. Centrica believes that plant operators will take a number of factors into account, such as spark/dark spreads, fuel costs, contractual agreements, carbon costs, outages in the market, constraints, non-BM agreements and other commercial objectives before considering the impact of a transmission losses scheme on their despatch policies. We therefore do not believe that any perceived benefit based on this assumption is valid. This greatly reduces the perceived benefits identified in the Oxera analysis, even with this seasonal variation suggested under P203 which, it is claimed by Oxera, will increase the benefits.

The Oxera analysis itself further concludes that “*..the introduction of zonal loss charging has negligible impact on the transmission network operation and development when compared with the same scenarios under uniform loss charging*”. However, when this negligible impact is compared with the significant transfers in cash flow between participants based solely on their historic investment decisions taken prior to any zonal loss charging regime, it is clear that P203 and the other zonal losses Mods serve only to benefit a small number of participants over others and not the market or the Transmission System as a whole.

It is also noted in the analysis that a number of medium and large power stations are planned over the next 10 years. All of these are planned for the southern half of England, and so it can be seen that market participants have already responded to the sufficiently strong signals from the TNUoS charging methodology, as well as the other economic and practical considerations involved in siting new plant. The addition of P203 would quite clearly not achieve any stronger signals for location of generating plant, nor of siting of demand, than those considerations which already exist.

Renewable generation, however, places greater weight on location as a consideration for investment decisions and also has less of a choice in where to be sited. It can be seen that P203 could have a detrimental effect on, for example, wind powered generation at a time when Government, European and regulatory policymakers are all attempting to encourage renewable investment.

In summary, Centrica believes that P203 would introduce little or no benefit to the market as a whole or to the efficient management of the transmission network, yet would introduce significant material gains to some Parties and losses to others. There is no increase in efficiency or efficacy with regard to the BSC Objectives, and we therefore do not agree that this Modification should be made.

We believe that P203 gives a calculation result for TLFs which is more in line with the original intention of zonal losses than an annual calculation (c/f P198 Proposed Modification), but we do not believe that P203 better facilitates any of the BSC Objectives.

*Q2: Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties?
Please give rationale*

Yes

P203 would allocate large sums of money to those Parties that have a portfolio weighted towards southern generation (and/or northern demand) or northern generation (and/or southern demand). The make-up of these portfolios can be an accident of post-privatisation, or a product of investment decisions made many years before the advent of any zonal losses scheme, and it is therefore wholly inappropriate to reward or penalise Parties for this.

Companies with a renewable generation bias may also be particularly negatively impacted, as the locational element of their decision-making over the last few years has perhaps been stronger than for other generators.

Independent power producers in the north and smaller Suppliers in the south will also have the impacts of P203 magnified, as they may not have a customer base or generation portfolio respectively with which to mitigate against any windfall loss on one side.

Q3: Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital?
Please give rationale

No

We do not believe that this Modification introduces any more regulatory risk to a market that is constantly subject to change.

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

Neutral

We do not support the Modification and therefore believe that the proposed implementation will only add to the unnecessary costs to the industry.
If, however, P203 were to be approved, we recognise that the approach suggested is reasonable.

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

No

*Q6: Does P203 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

Q7: Are there any further comments on P203 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 Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 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 Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.