Responses from P157 Assessment Consultation (2)

Consultation Issued 04 August 2004

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	EDF Energy	P157_AR_001	9	0
2.	RWE Npower	P157_AR_002	10	0
3.	Scottish and Southern energy	P157_AR_003	5	0
4.	E.On UK Plc	P157_AR_004	15	0
5.	Scottish Power	P157_AR_005	6	6
6.	Energywatch	P157_AR_006	0	1
7.	British Energy	P157_AR_007	3	0
8.	BizzEnergy	P157_AR_008	1	0
9.	British Gas	P157_AR_009	3	0

P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	Paul Chesterman
No. of 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 Parties Represented	0
Non Parties represented	N/A
Role of Respondent	Supplier/Generator/ Trader

Q	Question	Response Error! Bookmark not defined.	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	?	It is difficult to give a Yes/No answer, when important elements remain to be defined. The removal of caps has spoilt this proposal for us. We will now have some difficulty in supporting this taylored original modification.

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	Yes ?	Again, it is difficult to give a Yes/No answer, when important elements remain to be defined. We do not support the suggestion of caps only for Suppliers with a small number of MPANs. This does appear as a fudge to a less than satisfactory solution. It would add compliaction and be a potential source of difficulty to the Panel as appeals will inevitably come forward from Suppliers marginally above the threshold.
3.	Do you support the Proposed or Alternative Modification more?	Alternative ?	We are now in difficulty with the Proposed Modification due to the exclusion of caps.
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	i /ii / iii / iv / v state yes or no as appropriate Yes Yes Yes Yes Yes	) But we are concerned that GPOL is too high for SP08 b & c))
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes	

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Q	Question	Response Error! Bookmark not defined.	Rationale
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	Yes	
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Top down	EDF Energy has suggested a Top down approach.
SECTION C: REDISTRIBUTION PRINCIPLE			
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	i)a i)b i)c ii)a ii)b ii)c ii)d ii)e iii) delete as appropriate	Not favoured Not favoured: Working capital tied up & Elexon req'd to act as Banker Of the Bond Rebate options, c is preferred. Not favoured. Duopoly effect.) We can not see any particular difficulty with any of b,c,d,e.))) There is some merit in this, given that P157 has found it so hard to develop consensus for a new way forward.

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Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	Yes	We would stress the point made previously. Until Suppliers are confident in the mechanism, we consider that capping is an important feature.
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	i)

Q	Question	Response Error! Bookmark not defined.	Rationale
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Yes	
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes	This is a pragmatic approach to support simplicity.
SECTION E: FURTHER COMMENTS			
15.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	The work of the Modifications Group has been exhaustive. Progression is now required.
16.	Does P157 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	

Parties are encouraged to provide financial information with regards 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 **12:00 on 4 August 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P157 **Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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Any queries on the content of the consultation pro-forma should be addressed to Roger Salomone on 0207 380 4369, email address Roger.Salomone@elexon.co.uk.

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P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	*John Stewart*
No. of Parties Represented	*10*
Parties Represented	RWE Npower Holdings Ltd, RWE Npower plc, Npower Cogen Limited, Npower Cogen Trading Limited, Npower Cogen Energy Limited, Npower Cogen Ireland Limited (As from 2nd August 2004)
No. of Non Parties Represented	
Non Parties represented	
Role of Respondent	*Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent*

Q	Question	Response Error! Bookmark not defined.	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			

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Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	No	We do not believe that the proposed Modification better facilitates the Applicable BSC Objectives. In our opinion the proposals do not meet Applicable BSC objective C (promoting competition) or D (promoting efficiency). The proposals deter competition, as a move away from caps, the principal of liquidated damages to the use of complicated methods of redistribution will deter new entrants. Legal opinion given by Elexon prior to and during the Modifications process acknowledges that liquidated damages arise from the failure of suppliers to meet their obligations under the Code and that withholding them would constitute a penalty. The proposals represent a shift away from charges being related to the principle of Genuine Pre Estimate of Loss and the use of Liquidated Damages to a system of fines and incentives. The present system of distribution tends to discriminate unduly against some suppliers and does not grant funds on the basis of performance. The proposed Modification nor the proposed alternative address this defect. The present arrangements for Supplier Charges are flawed, yet the proposals put forward are more complicated and exacerbate the situation that they propose to remedy. . The proposals will not result in any increases in efficiency and do not better meet the applicable objectives. The benefits of the Modification to the industry have yet to be quantified and may be outweighed by the costs to BSC Parties.

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	No	These proposals are even more detrimental than the proposed Modification.
3.	Do you support the Proposed or Alternative Modification more?	Proposed/Alternative	
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	i /ii / iii / iv / v state yes or no as appropriate	
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes / No	

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Q	Question	Response Error! Bookmark not defined.	Rationale
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	Yes / No	
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Top down / bottom up	
SECTION C: REDISTRIBUTION PRINCIPLE			
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	i)a i)b i)c ii)a ii)b ii)c ii)d ii)e iii) delete as appropriate	

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Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	Yes / No	
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	i) / ii)	
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	Yes / No	
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	Yes / No	
SECTION D: IMPLEMENTATION DATE			

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Q	Question	Response Error! Bookmark not defined.	Rationale
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Yes / No	
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes/No	
SECTION E: FURTHER COMMENTS			
15.	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 believe that the Modification does little to tackle the root causes of poor data in the market. This Modification seeks to improve the quality of data by putting in place more robust rules. The proposal concentrates on aspects of the output measures rather than addressing the source of the problems, some of which may extend beyond the scope of the BSC. A more prudent approach would be to use the findings of the Customer Transfer Programme (CTP) to identify cost effective solutions and to propose alternatives, some of which may require Modifications to the BSC. The CTP is seeking to tackle these root cause data problems. Under the proposals put forward by P157 Market participants will be punished (or rewarded) for a systemic market failure rather than for any actions under their control.

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Q	Question	Response Error! Bookmark not defined.	Rationale
16.	Does P157 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	

Parties are encouraged to provide financial information with regards 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 **12:00 on 4 August 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P157 **Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	*John Sykes*
No. of Parties Represented	*5*
Parties Represented	*Scottish and Southern Energy, Southern Electric, Keadby Generation Ltd., Medway Power Ltd., and SSE Energy Supply Ltd.*
No. of Non Parties Represented	
Non Parties represented	
Role of Respondent	*Supplier / Generator / Trader / Party Agent*

Q	Question	Response	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	Yes, but….	The revision of GPoL and the re-examination of the methodologies are useful and serve to make the process more cost reflective, which will better facilitate the BSC objectives. However, the Proposed Modification, even with (or especially with) revised redistribution, does not create a clear, transparent and predictable incentive the lack of which was the essence of the defect identified by the original modification proposal. However, it should be noted that certain redistribution proposal could be discriminatory by nature, and thus could not be said to better meet the applicable objectives
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the	Yes	The Alternative Modification as defined in the paper still consists of a number of either/ors on Redistribution and caps. Our preference is for the Bond Rebate (invoice now, pay later) Method, with an above average performance being used to

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Q	Question	Response	Rationale
	costs outweigh the benefits?		redistribute forfeit amounts. This option requires no caps, as the payer always has the opportunity to recover his costs by improving his performance. Our responses are based on this combination. The objectives of the modification were to introduce a supplier charges regime with the following attributes:- • Simplicity • Fairness • Predictability • Stability • Not Penal • Act as an Incentive • Based on Absolute not relative performance An aspect of "traditional" and "above average" redistribution is that as all suppliers improve, the "pot" of money to be re-distributed gets smaller, and, therefore, the financial incentive decreases as market performance improves. A way to create a real incentive for the Supplier is to make him the major stakeholder, not just a possible beneficiary from other suppliers who don't perform or a scapegoat when he doesn't. So the combination of a "bond rebate" for the non-performing supplier and an "above average/over the standard" for the performing one seems to offer an appropriate combination. It concentrates on making the individual supplier improve his performance and stop his passing on data of poor quality, rather than compensating other Suppliers for his actions. It tackles the root cause rather than the effect. We value other suppliers' improvements higher than receiving compensation when they don't. We consider that the Bond Rebate method breaks the mould of traditional supplier charges thinking, and incorporates the above principles through the following features that meet the objectives in a different way to that of the existing method and

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Q	Question	Response	Rationale
			the Proposed Modification:- • The charges and rebate amounts remain in proportion to supplier size • It is a supplier's own money at stake, not someone else's • It is not penal because by their own action, suppliers can recover the full amount • It is related to the individual improvement against the standard and is a true incentive to improve absolutely not relatively • It does not rely on averages, or relative market shares • It is easy to understand, calculate and predict • It does not rely on other suppliers' performance or improvement for the calculation • It is a true incentive to maintain good performance, and not to let it slip • It does not need a cap on the liability • It gives Suppliers a practical mechanism by which to incentivise their agents and share risk and reward with them. We therefore consider that Objective (c) and objective (d) are better served by this Alternative Proposal.
3.	Do you support the Proposed or Alternative Modification more?	Alternative	See 2. Above
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial	i /ii / iii / iv / v state yes or no as appropriate Yes Yes	

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Q	Question	Response	Rationale
	SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	 Yes Yes Yes	
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes	Although this has resulted in a figure lower than the current one, the methodology appears robust.
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	Yes	The consequences of poor data quality are passed on through the CoS process and this should be recognised. Although direct cause and effect cannot be proven, the assumption that a poor performer passes on more bad data than a good one is not unreasonable or implausible.
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Bottom up	However, both methods should give approximately the same answer if they are valid. It would be worth doing a comparison of numbers received from respondents to see if there was a difference. (see below) SSE has already supplied numbers for the Bottom Up example and these appear in the Consultation Paper. The problem with the Top Down approach is that it involves knowledge of overall levels of error, and assumptions about how this differs according to the type of the customer. Notwithstanding this, SSE submits the following data for use in the Top Down approach as being both reasonable and

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Q	Question	Response	Rationale
			indicative of such a calculation:- A = 1m @ 2% = 20,000 B = 4m @ 3% = 120,000 A/B = 0.1667 C = B @ 4MWh = 480,000 D = 10 staff @ 20k + 30% = 260,000 D/C = 0.5417 A/B * D/C = £0.09/MWh This gives the same answer as the Bottom Up method.
SECTION C: REDISTRIBUTION PRINCIPLE			
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	i)c	It is not made clear in the Consultation Paper that Bond Rebate is only a partial redistribution technique, and that the forfeit amounts themselves have to be redistributed. It's all a question of whether you have the Bond Rebate as a "first step" in the redistribution process of not. It is not a question of Bond Rebate OR Performance Related. There seems to be a confusion about the difference between "cost" and "cash". A cost to a business is incurred when it is invoiced, not when it is paid. This is a fundamental accounting principle. There is no delay in terms of "cost" to a suppliers business, and once the invoice is issued, the business carries the cost. Also the amount invoiced is based on GPoL and is the same as it would be if no rebate was in prospect. It does not therefore worsen cash flow, in fact it betters it because the cash is not due until a year later. The full amount is then due, unless there has been an improvement, which is the whole point. The invoice and credit note arrangement is very easy to understand and could, if necessary, be administered manually.

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Q	Question	Response	Rationale
		ii)d	Which average performance method to use depends on whether or not there is a Bond Rebate as an initial redistribution. If there is, then a more rough and ready approach can be taken, which could exclude the "self" because "self" has had the opportunity to recover moneys through the rebate process. An above average "excluding self" method seems appropriate. Without a Bond Rebate front end, more care needs to be taken because then there is more value at stake, and average arithmetic introduces anomalies of the kind Ofgem preferred to see overcome.
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	Yes, but….	Only if Bond Rebate is not used. If the average performance type method is used to redistribute the forfeit amount only then no cap is necessary and it is an unnecessary complication.
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	ii), but….	See 9 above. If Bond Rebate is used then a cap should be introduced to cover small suppliers where the calculation of GPoL may not be robust. However, if the average performance method alone is used we believe that some form of capping is necessary, to prevent against the *averaging arithmetic*, rather than the GPoL, producing extreme results. **Capping ought to be applied to redistribution as well as charging to prevent windfall gains and disproportionate net charges.**
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	Yes	Recovery of one's liability is entirely in one's own hands and a cap is not needed. The other serials should be self-capping through the methodology as described in the paper.

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Q	Question	Response	Rationale
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	Yes	Seems a sensible balance between effort and elapsed time.
SECTION D: IMPLEMENTATION DATE			
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Yes	
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes	Just for simplicity
SECTION E: FURTHER COMMENTS			
15.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
16.	Does P157 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	The Alternative Modification is still defined in terms of optional features. Both Proposed and Alternative have the same GPoL, and could have the same cap provisions judging from Ofgem's latest clarification of its provisional thinking on caps. The Bond Rebate method also requires a method of redistributing the forfeit amounts. It appears that opinion is polarised between those who believe in a "traditional" redistribution on the basis of compensation,

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Q	Question	Response	Rationale
			and those who are seeking to take advantage of the legal opinion that redistribution is a matter for the parties to agree, thereby creating a more incentivised regime that the compensation method can never achieve. These are two fundamental alternatives, and all the others are variations on these two themes. Should we not therefore be orientating the Proposal and the Alternative around these two principles, rather than mixing them both as at present.

Parties are encouraged to provide financial information with regards 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.

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BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	Afroze Miah
No. of Parties Represented	15
Parties Represented	E.ON UK plc, Powergen Retail Limited, Cottam Development Centre Limited, E.ON UK Drakelow Limited, E.ON UK Ironbridge Limited, E.ON UK High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, TXU Europe (AHST) Limited, TXU Europe (AHGD) Limited, Powergen Retail Gas (Eastern) Limited and Enizade Limited
Role of Respondent	Supplier/Generator

Q	Question	Response Error! Bookmark not defined.	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	No	Since it was raised, E.ON UK has not been convinced that this Modification Proposal is justified, or that it has been proved that the old arrangements do not work. Therefore, it is our view that it is difficult to determine if any new arrangements would provide an improvement, and so consequently cannot reasonably judge whether the Applicable BSC Objectives are better achieved. Specific to this proposal, we don't believe that the Average Performance option for redistribution is a fair method (see 8), nor that in house costs to correct bad data should be included in the Genuine Pre-estimate of Loss (GPoL) calculation (see 6), and consequently do not believe that it better achieves Applicable BSC Objective (c).

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	A qualified Yes	The continued efforts of the Modification Group have further developed the initial proposals, and have provided us with greater confidence that these proposals are fair. On the whole, as a package this is the closest match to the E.ON UK view, as long as the current redistribution method is retained. We also believe that the abolition of caps completely is the correct option, but would settle for the second of the two options included in the proposal as it will provide some security for smaller suppliers.
3.	Do you support the Proposed or Alternative Modification more?	Alternative	See above.
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	i – no ii – no iii – yes iv – yes v - yes	We do not believe that the method used for i) and ii) constitutes a GPoL, as it reflects only the administrative costs borne by Elexon. Indeed, it is questionable whether the failure of a supplier to comply with these serials actually damages other suppliers at all.
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes	

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Q	Question	Response Error! Bookmark not defined.	Rationale
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	No	Correcting bad data should form a fundamental part of any suppliers operation, as it will necessarily affect their own performance and the consequent impact in settlements. Suppliers are also being 'encouraged' through various Elexon initiatives to address bad data problems (e.g. high EAC/AA's, D0095 exceptions) and therefore we cannot see why this should be included in any GPoL calculation. It is arguable that a supplier which has to correct bad data that it has inherited should be compensated, but this method will not necessarily compensate the right parties.
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Bottom up	Both methods are crude, but of the two we believe that the Bottom up method would be easier to determine. However, it should be noted that different types of 'bad data' will take differing amounts of effort to correct, with the likelihood that the costs of correcting one problem when compared to another will vary enormously. It is also reasonable to expect that there will be significant differences between different suppliers, and so consequently we do not believe that it is possible to attach a GPoL to this element – another reason why this should not be included in the calculation.
SECTION C: REDISTRIBUTION PRINCIPLE			

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Q	Question	Response Error! Bookmark not defined.	Rationale
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	iii)	None of the alternative suggestions of the Modification group, nor the discussions surrounding them, have convinced us that there is a better method than the one in use currently. It is simple, understandable, and links directly into the GPoL. The Bond Rebate option is complicated, and whilst it may prove to be an incentive to improve performance, it does not provide the necessary compensation which is rightly due to damaged parties in a timely fashion. The Average Performance model is fundamentally flawed, in that some suppliers will not receive damages due to them from other suppliers if they happen to be performing below the average. There is also a concern that the average performance level in any GSP group and subsequent redistribution is most closely linked to the performance of the incumbent supplier, with the incumbent more adversely affected than other suppliers if they are below the average, whilst smaller suppliers will benefit from considerable windfall gains if performing above the average.
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	No	We are fully supportive of the suggestion to abolish caps. A cap would limit the charge applicable, and as such therefore limits the compensation below the agreed GPoL level. They may also have the effect of dulling the incentive on a supplier to improve its performance, if it knows that the cost of failure is limited.

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Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	ii)	As we have highlighted above, we don't believe a cap is necessary. If, however, a cap is to be retained, as the most serious consequence of abolishing caps would appear to be the potentially adverse effect on smaller suppliers, we support the second option as it will mitigate this risk.
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	Yes	As we have made clear above, we do not support caps. Retaining them for this method has even less value, given that the final amount paid by a supplier is very much within its own control as it is dependent on its own performance improvement. A supplier can therefore limit its exposure by improving its performance.
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	No	Our view is that the GPoL should be recalculated every year, as this will ensure that any changes to any element of the GPoL calculation(s) are considered and encompassed in the Supplier Charges structure without undue delay. This should be a fairly straightforward piece of work once the methodology is agreed.
SECTION D: IMPLEMENTATION DATE			
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	No	We would like to see any changes as a result of P157 introduced as soon as possible, on the basis that this modification process has proved that the existing charges are in some cases inaccurate and not reflective of a GPoL.

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Q	Question	Response Error! Bookmark not defined.	Rationale
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes	Based on the fact that P157 introduces more reflective charging, we would prefer this method to be used.
SECTION E: FURTHER COMMENTS			
15.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
16.	Does P157 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	

Parties are encouraged to provide financial information with regards 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 **12:00 on 4 August 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P157 **Assessment 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 Roger Salomone on 0207 380 4369, email address Roger.Salomone@elexon.co.uk.

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P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	*Timothy Roberts (Scottish Power)*
No. of Parties Represented	*6*
Parties Represented	Scottish Power UK PLC; Scottish Power Energy Management Ltd; Scottish Power Generation Ltd; Scottish Power Energy Retail Ltd; SP Transmission Ltd; SP Manweb PLC.
No. of Non Parties Represented	
Non Parties represented	*6*
Role of Respondent	*Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent /*

Q	Question	Response	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	Qualified Yes	This approach (against what we see as the appropriate serials) may well act as an incentive on Parties to address poor data quality issues, and meet the following BSC objectives:- C) Promoting effective competition in the generation and supply of electricity. D) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements. However, our view of this requires to be qualified as we cannot support the proposed redistribution method in the Assessment Consultation (i.e. No bond rebate) together with no caps.
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	Yes	The Alternative Modification will act as an incentive on Parties to address poor data quality issues, and meet the following BSC objectives:- C) Promoting effective competition in the generation and supply of electricity. D) Promoting efficiency in the implementation and

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Q	Question	Response	Rationale
			administration of the balancing and settlement arrangements
3.	Do you support the Proposed or Alternative Modification more?	Alternative	The alternative Modification provides a greater incentive on Suppliers to address data issues due to the concept of bond rebate, which gives Suppliers a chance to receive some of their money back from improved performance, which also reduces / eliminates the need for CAPs, which OFGEM are keen on.
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	i yes. ii yes. iii. yes. iv. yes. v. yes.	All Calculations seem 'reasonable' although it is doubtful whether or not all the charges can be deemed as a genuine pre estimate of loss. In particular, SP01 and SP02 seem more reflective of an admin cost, rather than a GPOL. However, the charges applied would appear to be at least an incentive for Parties to provide accurate & timely reports. This is more preferable than just escalating a Party to PAB. The charges on SP08b and SP08c are now more accurate as they take into account the impact of CP696.
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes	The data samples provided together with the methodology seem to confirm that a charge of £0.11/MWh is reasonable and is a GPOL.
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	Yes	Given that Suppliers do incur an in-house cost to correct bad data, clearly this a genuine pre estimate of loss. The issues with this cost are its accuracy & as to whether or not it stands up to scrutiny, given the variances in types; costs and time taken in resolving problems.
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more	bottom up	The example provided within Assessment Consultation 2 seems reasonable. Given the variances outlined in Q6 any value

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Q	Question	Response	Rationale
	appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)		higher than that suggested (£0.313/MWh) would have to stand up to a level of accuracy which we believe can't not be ascertained due to these variances. This charge is an acceptance that there is a cost in correcting bad data.
SECTION C: REDISTRIBUTION PRINCIPLE			
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	i) c ii) a	i) c This seems the easier of the 3 bond rebate methods to administer. Certainly by invoicing parties now and redistributing later adds clarity to the process as all parties will know the maximum payment they will have to make in a years time, thus incentivising the party to improve performance to receive a credit note to offset against this invoice. Of the other 2 bond rebate methods, there are issues with both of them as the pay now redistribute now is clearly too complex; whereas the pay now redistribute later could be seen as anti competitive. ii) a. if the bond rebate is rejected by a majority of respondents than we believe that it should be based on a straight average with redistribution to those on or above the average. Although, there are issues with this average approach e.g. it will be difficult for Suppliers to impact the average in performance of GSP Group, due to just 2 Suppliers having over 65% of the volume in each Group. Hence, there is a questionable incentive to the other suppliers in each GSP Group to improve performance. Given this option e (Redistribute on a market basis using the basic option) would be our favoured average performance means of redistribution.
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	Yes	The concept of CAPs is to avoid limitless liability. Consequently, it remains appropriate to apply one. If the CAP is removed ,then arrangements should be put in

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Q	Question	Response	Rationale
			place to ensure SC's do not exceed a GPOL and stray into the area of 'penalties'
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	i)	If a CAP is applied, it should apply to ALL Suppliers, and not a select few.
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	Yes	By applying the bond rebate method, the parties are being giving the opportunity to recover part/all of their SC's for improved performance. Therefore, even if a Supplier performs very badly and receives high charges, they have 12 months to improve and avoid these charges. Consequently, a cap is not needed under this method.
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	Yes	
SECTION D: IMPLEMENTATION DATE			
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Qualified Yes	The advantage with this date is that it does allow the Pre P99 rules to be fully run off before this Modification is implemented. Also it is giving parties time to address issues in advance. The reason for the qualification is that any further delays to the Modification process could result in perhaps only 9 months to correct data before it becomes subject to this Modification.

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Q	Question	Response	Rationale
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes	
SECTION E: FURTHER COMMENTS			
15.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
16.	Does P157 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	In reviewing the principles and methodologies associated with Supplier Charges, we came to question the cost effectiveness of performance monitoring being scrutinised at a Supplier Id level. Whilst, perhaps not strictly within the scope of P157; we are also mindful of the costs associated with modification proposals and would be pleased if the VASMG would also consider the issue of performance reporting in its deliberations. Current methodology can result in Suppliers with multiple Supplier Ids being asked to complete actions and provide performance plans to PAB for each Id they hold. This is time consuming and not cost effective. It is our view that PARMS reports could be submitted as currently, but with the BSCCo aggregating the statistics for reporting to the PAB. Whilst this would not affect the level at which Supplier Charges are actually levied, it would reduce the cost burden on both PAB and Suppliers.

Parties are encouraged to provide financial information with regards 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.

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P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	*Sebastian Eyre*
Non Parties represented	*energywatch*
Role of Respondent	*Gas and electricity consumer watchdog*

Q	Question	Response	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	Yes (Qualified)	We would reaffirm the view that we have previously expressed that the proposed modification would better facilitate the applicable BSC objectives, in particular objectives (c) and (d), against the current baseline. We do have some concerns that the level of monies that will be circulated under P157 will be of a magnitude less than the level of monies that are currently circulated under the existing supplier charge regime. However, this may still better meet the applicable BSC objectives if the monies are circulated amongst the right parties. *Promoting effective competition in generation and supply* We agree with the initial view of the modification group that the proposed modification should improve performance and hence data quality. This should therefore reduce uncertainty within the market and less time and money should be spent on improving poor performance and consequently reduce costs. *Promoting efficiency in the implementation and administration of the BSC* We agree with the initial view of the modification group that the efficiency of the BSCCo should increase as less time should be required to be spent on improving poor performance and dealing with data quality issues.

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Q	Question	Response	Rationale
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	Yes (Qualified)	Rationale the same as stated in response to question 1.
3.	Do you support the Proposed or Alternative Modification more?	Proposed/ Alternative	
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	Yes to serials i to v	We support the methodologies the group has developed for calculating the GPoL for each of these serials.
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes	We support the methodology the group has developed for calculating the GPoL for this serial.

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Q	Question	Response	Rationale
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	Yes	We consider that the in-house costs of correcting bad data should be included noting that all members of the group felt that this was in fact a loss suffered by all suppliers.
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Bottom up	We note that the data provided by different suppliers will differ under the bottom up approach but we do not consider this to be an issue. It would seem reasonable to include the average and include this in the GPoL. We are not able to provide data/numbers.
SECTION C: REDISTRIBUTION PRINCIPLE			

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Q	Question	Response	Rationale
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	i)c ii)a ii)b ii)c ii)d ii)e	*Bond rebate* We note the concerns raised by the group concerning the complexity of bond rebate distribution method (a). We also note the concerns of the group and those set out in the Authority provisional thinking concerning the working capital and the potential disadvantage this may introduce for smaller players. We recognise that smaller parties already have a higher cost of capital and we would want to avoid introducing a redistribution mechanism that could increase this further. Our preferred bond rebate redistribution method is (c). Whilst we recognise that this is a delaying mechanism, we do feel that one of the key objectives of P157 is to improve supplier performance and data quality and if the supplier is invoiced it will then know it has a year to improve its performance and reduce the monies it has to pay out. Suppliers could potentially use this as a tool for negotiating with agents to improve performance, for example they could agree to share a proportion of the avoided charges. We note that some members of the group considered that suppliers put a higher value on performance improvement than receiving compensation. *Average performance* We note the concerns raised by some members of the group, the Authority in its provisional thinking and the Panel concerning average performance distribution method (a) particularly relating to weaker incentives at the upper end of performance and the potential for windfall gains. Method (d) seeks to address concerns that method (a) provides a weak incentive at the upper end of performance and is not tied to the standard. This group also consider this method to fulfil the objective of being a continuous redistribution method. Method (d) is preferred to methods (a), (b) and (c). *Current mechanism* We do not support the application of the current redistribution method as part of P157.

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Q	Question	Response	Rationale
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	No (Qualified)	We stated in our response to the first assessment consultation that we would support the removal of caps where it can be established that this would not have an adverse impact on competition. The Authority provisional thinking indicated that it did not consider that the modelling had identified any situations that were obviously threatening to business. We would maintain our support for removal of caps subject to confirmation that removal would not threaten business viability and therefore competition.
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	i	As we stated in our response to the first assessment consultation, we believe that if caps are to be applied this methodology is an improvement on the current methodology. It is difficult to determine what exceptional circumstances may arise but it is possible that they could happen to larger as well as smaller suppliers. Where thresholds are applied issues always arise concerning those around the boundary of the threshold.
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	Yes	Our preferred bond rebate redistribution method is (c). We believe that this method should protect smaller suppliers from exposure to significant charges in exceptional circumstances. Consequently, we do not think that caps are required under bond rebate method (c).
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	Yes	As we indicated in our response to the first assessment consultation, it does seem appropriate to periodically review the genuine pre-estimate of loss bi-annually. We note that the Authority recently questioned the process for revising the third party generating limit outwith the modification process. We note that the proposed process would rerun the agreed methodology with up to date data and any change in the methodology could only occur via a change proposal. Consequently, we would not expect the Authority to have the same concerns but this may be worth checking.
SECTION D: IMPLEMENTATION DATE			

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Q	Question	Response	Rationale
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Yes	We support a calendar day implementation date set in the future and note that the Authority provisional thinking stated that it was currently of the view that this would be the most appropriate approach. A July 2005 implementation date provides for pre-P99 rules to be fully run off and for development to take place within a scheduled release.
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes (Qualified)	On face of it this may be the most straight forward option.
SECTION E: FURTHER COMMENTS			
15.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	The group has considered a considerable number of alternatives already and we think it would be helpful to now try and draw these together.
16.	Does P157 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	We have raised a minor issue for consideration in question 12 above. Footnote 2 should be amended to reflect that the Authority approved P124 Alternative with an implementation date of 1 December 2004.

Parties are encouraged to provide financial information with regards 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 **12:00 on 4 August 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P157 **Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS – BRITISH ENERGY GROUP RESPONSE

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	*Martin Mate*
No. of Parties Represented	*3*
Parties Represented	*British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd*
No. of Non Parties Represented	*-*
Non Parties represented	*-*
Role of Respondent	*Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent*

Q	Question	Response	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			

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Q	Question	Response	Rationale
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	No	Ideally, supplier charges and their redistribution would simply be a transfer of funds between parties causing errors and associated costs and those detrimentally affected by them and there would be no caps. However, determination of exact amounts is impossible and assumptions and approximations are unavoidable. In the proposed modification as presented, gross assumptions have been made in the derivation and application of average charge rates to be applied for poor performance against serials, particularly SP08a,b,c. The proposed charges disregard individual supplier data accuracy performance, and assume an average accuracy of estimated data based on a limited sample of doubtful validity. For example: • If a supplier ensures good estimates of data, over-estimates and under-estimates will tend to cancel over its portfolio within a GSP Group so that the effect on other suppliers is actually very small. • A supplier which replaces erroneous 'actual' data (eg. meter faults) by accurate estimated data will be penalised. • Data improvements resulting from replacement of actual data by more accurate actual data (eg. correction of erroneous meter technical details such as pulse multiplier) are not acknowledged. This will have distorted the analysis performed by Elexon and may have exaggerated the inaccuracy of estimated data. • Some suppliers may consistently experience underestimated metered volumes, in which case their errors could affect other suppliers considerably, and will have increased the average charge rates proposed to be applied to all. This will give charges which are overgenerous for some parties and penal for others, and for HH Suppliers this discrimination will be greater than under the current arrangements due to the higher proposed rates. Charge caps would limit the extent of this inequality, and without such caps we believe the proposed charges will introduce excessive discrimination. As described later, we suspect that the simplifications made tend to overestimate the 'damages' associated with estimated Half-hourly data and underestimate the 'damages' associated with estimated Non Half Hourly data.

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Q	Question	Response	Rationale
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	No	As above, we have concerns that the derivation of applicable charge rates is over-simplified and will exaggerate inequalities in charging between suppliers. The use of caps as proposed will limit the extent of the inequalities and is thus preferable. However, even with caps we have concerns that the proposals as presented will have the main effect of redistributing money from HH Suppliers to NHH Suppliers rather than producing real improvements in data accuracy and timeliness and reducing the problems which absorb Elexon and industry resource and have led to qualified BSC audit. These problems appear to be mainly associated with NHH suppliers, and it is not clear to us that this modification or the alternative will incentivise improvements in these areas. Given the materiality of misallocation of BSC Trading Charges associated with supplier data errors, the materiality of supplier charges, and the central costs associated with attempting to resolve problems, high implementation costs may be justified for significant changes to the framework. However, we would not expect costs as high as this simply for changing the charging rates or removing caps.
3.	Do you support the Proposed or Alternative Modification more?	Alternative	Alternative preferred. The proposed caps will limit discrimination introduced by inaccurate or inappropriate charges.
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			

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Q	Question	Response	Rationale
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	i /ii / iii / iv / v state yes or no as appropriate	i & ii – No. While it may be common practice that all reports are sent together, and that a missing set requires similar central cost to manage as an individual GSP Group report, Supplier Charges operate on a GSP Group level and charges at that level both cover the possibility of individual reports being missing and provide incentive to ensure the reports are sent. iv & v – No – see also response to question 1. 1. It is not clear to us why the average of the magnitude of the average differential between SBP and Market Price and SSP and market price is considered an appropriate value to place on assumed errors. We would expect market price or SSP as an indicator of the value of assumed errors. Eg. if a NHH supplier has contracted at market price with a long position relative to true expected demand, in order to cover other uncertainties, but suffers demand increase via group correction due to other suppliers errors, it receives less spill income at SSP than it would otherwise. In the first instance its loss is simply SSP. NHH suppliers undoubtedly consolidate the uncertainties in GSP Group Correction associated with estimated data with other uncertainties such as demand forecasting, so it could be argued that the cost of errors associated with estimation is shared with other effects, but this does not appear to be the reason for using differential prices. 2. The derivation of the assumed error (under-estimate?) relative to true volume in estimated data is over-simplified. No information is provided about the variability between suppliers or GSP Groups, and it is not clear how the following effects will have impacted the result: • For suppliers which ensure good estimates of data, over-estimates and under-estimates will tend to cancel over its portfolio within a GSP Group so that the effect on other suppliers is actually very small. • Replacement of erroneous 'actual' data by accurate estimated data. • Data improvements resulting from replacement of actual data by more accurate actual data (eg. correction of erroneous meter technical details such as pulse multiplier), or replacement of estimates with more accurate estimates. The original/current supplier charges assumed that for 'intermediate' runs (those for which there still remained the opportunity for estimates to be replaced with actuals) supplier charges were covering the approximately the cost of the run

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Q	Question	Response	Rationale
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	No	It is likely that estimated data in the NHH market is now, on average over many customers, reasonably accurate, and the methodology used may be appropriate in this case, disregarding differences in estimation accuracy between suppliers. However, we consider the estimates of central costs associated with monitoring and managing NHH performance and errors in general are considerably underestimated. In the absence of any serial to deal with these issues directly, we would prefer to see these costs included in this serial. In the original/current supplier charges, a large part of the total costs of additional settlement runs were included in these charges, not just incremental costs, and we see some merit in this.
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	No	When a supplier acquires a customer, it becomes responsible for the meter from that time on, and is capable of taking meter readings and rectifying errors. It is not clear to us that the cost of performing its responsibilities under the code should be considered a loss capable of recovery under the BSC from the previous supplier (in theory) or in practice from suppliers which have estimated data. This could be considered a bilateral issue.
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Top down / bottom up	No comment at this time.
SECTION C: REDISTRIBUTION PRINCIPLE			

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Q	Question	Response	Rationale
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	iii)	Leave as currently. The current redistribution mechanism appears to be a theoretically reasonable way of redistributing from suppliers with assumed errors in estimated data to suppliers suffering GSP Group correction. We acknowledge that it gives an apparently counter-intuitive effect of effectively returning charges to those which have caused them, but this appears to be justified on the basis that they 'suffer' the consequences in GSP Group correction of their own errors. Ie. Other suppliers do not bear all the costs of one suppliers errors – it bears a proportion itself. We acknowledge that other methods may give sharper incentives, and would support sharper incentives provided the right objectives are targeted. However: • Supplier charges and this modification are not (unfortunately) explicitly concerned with the setting of incentives, and • we are not convinced that 'volume of estimated data' on its own, without reference to the accuracy of that estimation on a more subjective basis, is the correct objective to target with incentives.
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	Yes	Given our concerns with the charging rates, the use of caps seems appropriate for any of the options.

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Q	Question	Response	Rationale
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	i)	Concern over the statistical validity of the determined average charge rates has led to the proposed option to permit suppliers with less than 400 MPANs to have capped charges. We share these concerns over the determined average charge rate, and have other concerns as described previously, which is why we support a cap for all suppliers.
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	No	In our view, a charge cap is justified by uncertainty in the accuracy of the charges applied, and this applies also to the bond rebate method of redistribution. We do not support the bond rebate method of redistribution, which appears to us an incentive method rather than a genuine pre-estimate of loss.
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	No	Calculations of 'Genuine Pre-Estimate of Loss' and Supplier Charge rates should be capable of review whenever the Panel chooses, and at least every 2 years. Given our reservations about the method of estimation of charge rates used in the assessment, we would expect flexibility in any methodology to be used in future, and would hope for more detailed analysis in this area.
SECTION D: IMPLEMENTATION DATE			
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Yes	Changes to charging arrangements should be introduced with sufficient notice so that parties are not significantly affected retrospectively, and have sufficient time to plan and manage the change. At least 3 months notice should be provided. July 2005 would be satisfactory provided Authority decision is received sufficiently in advance, say by March 2005.

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Q	Question	Response	Rationale
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	No	Ideally, the charging rules applicable at the time when the data should have been submitted should apply to occurrences where the data is received late or updated. Applying new rules to data submitted late effectively represents a retrospective rule change. If the new rules are considered more 'relaxed' by any party (eg. NHH suppliers) then late and revised data submission can be expected! However, no information is given on the cost of achieving this ideal, or the extent of late data submission or data revision.
SECTION E: FURTHER COMMENTS			

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Q	Question	Response	Rationale
15.	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	Although this modification has admirable intent, we believe the supplier charges framework and indeed the whole settlement timetable needs more fundamental review in the longer term, not in a timescale constrained by the modification process. Although this modification has touched on some wider issues, these have largely not been pursued. Some fundamental questions: • What is the cost and value to parties of the current settlement timetable? Should changes be made, eg. settlement runs over a longer timescale to allow longer to capture or correct data, or a cut-off at which parties accept (and write off errors in) the data which exists, estimated or actual, correct or erroneous? • Supplier charges applied more flexibly to performance issues as they arise? Eg. to the various issues leading to qualified audit, instead of pursuing potentially expensive (and often ultimately only approximate) correction methods. • Is it cost effective to pursue the level of accuracy and performance to which the BSC aspires? • More specific consideration of how individual suppliers performance in various areas is causing loss and costs borne by other parties; more precisely what those losses and costs are; how to redistribute funds to compensate; and how to incentivise general performance levels. Eg. Is the level of estimated data the real issue, or the accuracy of that estimated data? A first step to inform discussion would be more transparency of current performance, ie. Peer Group Comparison.
16.	Does P157 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	-

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Please send your responses by **12:00 on 4 August 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P157 **Assessment 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 Roger Salomone on 0207 380 4369, email address Roger.Salomone@elexon.co.uk.

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P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	*Keith Munday*
No. of Parties Represented	*1*
Parties Represented	BizzEnergy
No. of Non Parties Represented	
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*Supplier*

Q	Question	Response Error! Bookmark not defined.	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	Yes / No	Costs could be around £200k, which is on the low side compared with many mods. However, believe uncapped liabilities can act as a barrier to New Entrants and restrict competition.
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	Yes / No	Support a mechanism for incentivising suppliers to improve their performance. But timing of payments and refunds are critical.

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Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you support the Proposed or Alternative Modification more?	Alternative	Support some form of capping and an incentive for suppliers to improve performance. But please see points under further comments.
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	i /ii / iii / iv / v state yes or no as appropriate	Approach seems logical.
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes / No	
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	Yes / No	

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Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Top down / bottom up	
SECTION C: REDISTRIBUTION PRINCIPLE			
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	i)c delete as appropriate	Support Bond Rebate. i)a and i)b require Elexon to act as a banker, increasing industry costs. i)c has the advantage of avoiding this requirement on Elexon.

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Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	Yes	See comments under point 16 below. To re-iterate a point raised earlier believe uncapped liabilities would act as a barrier to New Entrants and therefore restrict competition. Backing off liability through renegotiation of the Agent contracts may prove a struggle and would certainly result in higher Agent fees for everyone which would ultimately be passed on to the customer.
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	i) / ii)	Comment - see 9. above
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	No	The bond rebate is an incentive scheme and charges are likely to be smoother. Exceptional circumstances are better handled under this scheme. However issue raised under point 9 above still remains.
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	Yes	Charges are indexed at present. Some form of evolutionary review appears to be sensible. Suppliers may want more fundamental review to be subject to the mods process.
SECTION D: IMPLEMENTATION DATE			

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Q	Question	Response Error! Bookmark not defined.	Rationale
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Yes	The suggestion is made on pragmatic grounds.
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes/No	
SECTION E: FURTHER COMMENTS			
15.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	Yes /	The concern that the current incentives fail to provide adequate incentives o improve data quality is certainly true and a defect – but cannot be cured by changing the incentive scheme as the root cause of the defect is far more fundamental as outline below.
16.	Does P157 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 /	The concept of Supplier Hub and performance incentives around this is based on the premise that there is a healthy and competitive market in the provision of Agent Services. This is not the case. Larger Suppliers can influence the behaviour of Agent better than small suppliers use to the size of their account. Many Agents are linked to groups that have supply businesses and there is nor legal or regulatory protection regarding the behaviour of that relationship. Some agents refuse to offer services to third parties. The concept of charging a Supplier especially smaller suppliers a GpoL for an activity which they are largely unable to influence is paramount to an infringement of Human rights.

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P157 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or providing 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:	*Eddie Wall BSC Account Manager British Gas*
No. of Parties Represented	*3*
Parties Represented	*British Gas Trading and Electricity Direct Uk*
No. of Non Parties Represented	
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*Supplier*

Q	Question	Response Error! Bookmark not defined.	Rationale
SECTION A: APPLICABLE BSC OBJECTIVES			
1.	Do you believe that the Proposed Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Proposed Modification and if so at what point do the costs outweigh the benefits?	No	It is not clear that P157 **better facilitates** BSC Objectives than the current Supplier Charges mechanism. P157 meets the applicable BSC Objectives C Promoting effective competition. The industry has yet to see the benefits from P99 so it is difficult to calculate if P157 is better than the current mechanism in place. The Supplier Charge module for P99 is costing 300k. The initial estimate from Logica for P157 is 200k, therefore to run Supplier Charges, the Industry is having to pay £0.5m in development costs. P99 also claimed substantial annual savings that have yet to be seen. The pre-P99 Supplier Charges are still in the process of catch-up and so the improvements off the back of these charges have yet to be realised.

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe that the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives? If your answer is no, is this due to the cost of the Alternative Modification and if so at what point do the costs outweigh the benefits?	No	As above.
3.	Do you support the Proposed or Alternative Modification more?	Alternative	
SECTION B: GENUINE PRE-ESTIMATE OF LOSS CALCULATION			
4.	Do you agree with the methodology for calculating the genuine pre-estimates of loss associated with the following Serials? i) Delivery of Routine Performance Reports (Serial SP01) ii) Delivery of Routine Performance Logs (Serial SP02) iii) Installation of HH Metering in 100kW premises (Serial SP04) iv) 100kW HH Energy and MSIDs on Actuals (Serial SP08b) v) Non-100kW HH Energy and MSIDs on Actuals (Serial SP08c)	i /ii / iii / iv / v state yes or no as appropriate	I,Yes Ii,Yes Iii, Reasonable Iv, Yes V, Yes
5.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think the methodology is appropriate (putting aside the issue of in-house Supplier costs to correct bad data)?	Yes	

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Q	Question	Response Error! Bookmark not defined.	Rationale
6.	For NHH Energy and MSIDs on AAs (Serial SP08a), do you think including the in-house Supplier costs to correct bad data in the genuine pre-estimate of loss is appropriate?	No	British Gas accepts that there are data quality transfer issues within the industry. However British Gas does not believe this can be calculated to a level of accuracy required to meet the genuine pre estimate loss definition. Options A and B contain calculations that would be very hard to qualify. How can a Supplier categorically prove in every case that an mpan inherited on X date did not have an AA in settlement by 14 months as a direct result of a previous Supplier? Matters are complicated further where the customer moves from Supplier to Supplier on a regular basis. The ability of a Supplier to be able to fix data problems (and the time it takes) will vary across the industry and will be impacted by things such as their relationship with their data collectors, how they utilise different systems and the processes they use. Many Suppliers do not wait until RF to fix data quality issues so determining how many mpans might reach this point is debatable.
7.	Even if the answer to Question 6 was no: Which of the methodologies suggested is more appropriate? (top down/bottom up)? (NB: Please provide data/numbers that can be used in the calculations where possible - these can be kept confidential if requested.)	Top down / bottom up	Neither – Please see above.
SECTION C: REDISTRIBUTION PRINCIPLE			

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Q	Question	Response Error! Bookmark not defined.	Rationale
8.	Which method of redistribution do you believe should be used as part of P157? Please state why you don't like other options if applicable. i) Bond rebate a. Pay now redistribute now b. Pay now redistribute later c. Invoice now pay and redistribute later ii) Average performance a. Basic b. Relative to amount above average c. Additional (2x share) if above Standard d. Both of the above (b+c) e. Redistribute on a market basis using a, b, c or d iii) Leave as it is currently	i)c ii)b iii)	Option C means that Elexon (or another party) do not have to hold finances of participants. Of the Bond Options, C gives the most incentive to Suppliers to improve their settlement performance. It gives Suppliers 12 months to correct the issues and clearly shows them the financial impacts of not doing so in advance. The delay between invoice and payment does not dilute the incentive as Suppliers will still have to accrue the charges against the annual performance, and by so doing will have to improve their own performance to reduce the liabilities. Of the Average performance models this method offers more of an incentive to a Supplier to get above the market average. If the Supplier goes above and beyond the average then extra incentives are given. This in turn will encourage all Suppliers to strive for the industry target. British Gas still has legal concerns over the inclusion of avoidable costs in liquidated damages and in particular on the collection and redistribution of supplier charges. Our legal view on this is as follows; *"These are linked under the current Annex S-1. The Performance Assurance Board (the "Board") collects the charges and distributes them in a 90:10 ratio between the qualifying Suppliers and qualifying Trading Parties respectively. The collection and redistribution of charges should be linked as it provides a clear connection between the charges collected and the parties which receive compensation as a direct result of a failure by a Supplier in meeting the applicable Performance Level. To remove the link weakens the compensatory requirement of liquidated damages and as a result the charges could be argued to be penal in nature.* 'ELEXON's legal view is that collection and redistribution can be separated.

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Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Do you consider that a cap should be applied to Supplier Charges in conjunction with the average performance type redistribution option?	Yes	Removal of the cap could lead to limitless liability and therefore could exceed the genuine pre estimate of loss. British Gas are still concerned that the removal of the caps could have an adverse effect on competition, and indeed act as a barrier to entry for smaller participants. Ofgems original provisional thinking and the subsequent Panel direction to VASMG did not provide clarity to the group. Ofgem's clarification on its provisional thinking looks to soften its view on the use of caps on some serials if detailed and well reasoned arguments are put forward. British Gas believes this should be discussed further at the next VASMG meeting.
10.	Which of the two following capping methodologies do you believe should be used in conjunction with the average performance type option? i) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c only (APPLICABLE TO ALL SUPPLIERS); or ii) 1% of Supplier Take in GSP Group * Credit Assessment Price and being applied to SP08a. b and c (APPLICABLE ONLY TO SUPPLIERS WITH LESS THAN 400 MPANS) *Please state appropriate rationale and why you don't support the other option if appropriate.*	i)	British Gas support the use of 10 i) over 10 ii) for the reasons mentioned in question 9 and that 10 i) is a substantial increase to the current capping methodology and would as a result incentivise improvements.
11.	Do you agree that a cap need not be applied if a bond rebate type of redistribution is used? *Please state rationale.*	No	A cap is still necessary. See question 9.

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Q	Question	Response Error! Bookmark not defined.	Rationale
12.	Do you agree with the process for reviewing the genuine pre-estimate of loss? *Please give rationale.*	Yes	A regular review is encouraged. At VASMG the current review has found calculations which should not have been included in the original GPOL. It will also help to review the calculation on HH. The current calculation has been carried out on limited information. As time progresses more data will be available and thus the accuracy will increase. After any review British Gas would expect a reasonable implementation date.

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Q	Question	Response Error! Bookmark not defined.	Rationale
SECTION D: IMPLEMENTATION DATE			
13.	Do you agree with the preferred P157 Implementation Date of Calendar Day July? Please give rationale. *If you disagree please state preferred alternative and rationale*	Yes	
14.	Do you consider that resubmissions for days before this Implementation Date should be treated according to P157 rules?	Yes	British Gas are supportive of the implementation of cut off rules for the resubmission of SC related data to minimise the administrative costs and the charging impacts on participants.
SECTION E: FURTHER COMMENTS			
15.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
16.	Does P157 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	

Parties are encouraged to provide financial information with regards 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 **12:00 on 4 August 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P157 **Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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