

MODIFICATION REPORT for Modification Proposal P156 Suspending the Implementation of the Zonal Allocation of Transmission Losses

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This document has been distributed in accordance with Section F2.1.10¹ of the Balancing and Settlement Code.

RECOMMENDATIONS

The Balancing and Settlement Code Panel recommends:

- **that Proposed Modification P156 should not be made;**
- **that the Implementation Date (in the event that the Authority determines that Proposed Modification P156 should be made) should be 1 April 2004, if an Authority determination is received on or before 24 March 2004 or, 5 Working Days after an Authority determination where an Authority determination is received after that date; and**
- **the proposed text for modifying the Code, as set out in the draft Modification Report.**

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¹ The current version of the Balancing and Settlement Code (the 'Code') can be found at www.elexon.co.uk/ta/bscrel_docs/bsc_code.html

CONTENTS TABLE

Summary of impacted parties and documents.....	3
1 Description of Proposed Modification and assessment against the Applicable BSC Objectives.....	4
1.1 Modification Proposal	4
1.2 Request for Urgency	6
1.3 Proposed Modification	6
1.4 Issues raised by the Proposed Modification	6
1.5 Assessment of the Proposed Modification against the Applicable BSC Objectives	7
1.6 Modification Group's cost benefit analysis of Proposed Modification	7
1.7 Alternative Modification.....	7
1.8 Governance and regulatory framework assessment	7
2 Revised Authority Determination on Modification Proposal P82	7
3 Costs	8
4 Rationale for Panel's recommendations	9
5 Impact on BSC Systems and Parties	11
5.1 BSCCo	11
5.2 BSC Systems	11
5.3 Parties and Party Agents	11
6 Impact on Code and documentation	11
6.1 Balancing and Settlement Code	11
6.2 Code Subsidiary Documents	12
6.3 Other Configurable Items	12
6.4 BSCCo Memorandum and Articles of Association.....	12
6.5 Impact on Core Industry Documents and supporting arrangements	12
7 Summary of consultations	12
7.1 Summary of the consultation responses	12
7.1.1 Provisional Panel Recommendation	13
7.1.2 Draft Legal Text.....	13
7.1.3 Implementation Date	14
7.1.4 Further Comments	14
7.2 Comments and views of the Panel	14
8 Summary of Transmission Company analysis	14
9 Summary of external advice	14
10 Implementation approach	14
11 Document control.....	15
11.1 Authorities	15
11.2 References	15
Annex 1 Legal Text	15
Annex 2 Guide to Legal Text	15
Annex 3 Clarification of Costs	15
Annex 4 Consultation Responses	18

SUMMARY OF IMPACTED PARTIES AND DOCUMENTS

The following parties/documents have been identified as being potentially impacted by Modification Proposal P156:

Parties	Sections of the BSC	Code Subsidiary Documents
Suppliers <input type="checkbox"/>	A <input type="checkbox"/>	BSC Procedures <input type="checkbox"/>
Generators <input type="checkbox"/>	B <input type="checkbox"/>	Codes of Practice <input type="checkbox"/>
Licence Exemptable Generators <input type="checkbox"/>	C <input type="checkbox"/>	BSC Service Descriptions <input type="checkbox"/>
Transmission Company <input type="checkbox"/>	D <input type="checkbox"/>	Service Lines <input type="checkbox"/>
Interconnector <input type="checkbox"/>	E <input type="checkbox"/>	Data Catalogues <input type="checkbox"/>
Distribution System Operators <input type="checkbox"/>	F <input type="checkbox"/>	Communication Requirements Documents <input type="checkbox"/>
Party A gents		
Data Aggregators <input type="checkbox"/>	G <input type="checkbox"/>	Reporting Catalogue <input type="checkbox"/>
Data Collectors <input type="checkbox"/>	H <input type="checkbox"/>	MIDS <input type="checkbox"/>
Meter Operator Agents <input type="checkbox"/>	J <input type="checkbox"/>	Core Industry Documents
ECVNA <input type="checkbox"/>	K <input type="checkbox"/>	Grid Code <input type="checkbox"/>
MVRNA <input type="checkbox"/>	L <input type="checkbox"/>	Supplemental Agreements <input type="checkbox"/>
BSC Agents		
SAA <input type="checkbox"/>	M <input type="checkbox"/>	Ancillary Services Agreements <input type="checkbox"/>
FAA <input type="checkbox"/>	N <input type="checkbox"/>	Master Registration Agreement <input type="checkbox"/>
BMRA <input type="checkbox"/>	O <input type="checkbox"/>	Data Transfer Services Agreement <input type="checkbox"/>
ECVAA <input type="checkbox"/>	P <input type="checkbox"/>	British Grid Systems Agreement <input type="checkbox"/>
CDCA <input type="checkbox"/>	Q <input type="checkbox"/>	Use of Interconnector Agreement <input type="checkbox"/>
TAA <input type="checkbox"/>	R <input type="checkbox"/>	Settlement Agreement for Scotland <input type="checkbox"/>
CRA <input type="checkbox"/>	S <input type="checkbox"/>	Distribution Codes <input type="checkbox"/>
Teleswitch Agent <input type="checkbox"/>	T <input checked="" type="checkbox"/>	Distribution Use of System Agreements <input type="checkbox"/>
SVAA <input type="checkbox"/>	U <input type="checkbox"/>	Distribution Connection Agreements <input type="checkbox"/>
BSC Auditor <input type="checkbox"/>	V <input type="checkbox"/>	BSCCo
Profile Administrator <input type="checkbox"/>	W <input type="checkbox"/>	Internal Working Procedures <input checked="" type="checkbox"/>
Certification Agent <input type="checkbox"/>	X <input checked="" type="checkbox"/>	Other Documents
MIDP <input type="checkbox"/>		Transmission Licence <input type="checkbox"/>
TFLA <input type="checkbox"/>		
Other Agents		
SMRA <input type="checkbox"/>		
Data Transmission Provider <input type="checkbox"/>		

X = Identified in Report for last Procedure
 N = Newly identified in this Report

Cost of Progressing Modification Proposal	11 ELEXON man days (£2,640)
Cost of implementing Proposed Modification:	5 ELEXON man days (£2,000)

1 DESCRIPTION OF PROPOSED MODIFICATION AND ASSESSMENT AGAINST THE APPLICABLE BSC OBJECTIVES

1.1 Modification Proposal

Modification Proposal P156 'Suspending the Implementation of the Zonal Allocation of Transmission Losses' (P156) was submitted by Scottish Power Energy Management Limited (the 'Proposer') on 19 December 2003. A copy of the Modification Proposal form is attached as Annex 1.

P156 seeks to modify the Balancing and Settlement Code (the 'Code') to prevent the implementation of the combined changes introduced by Approved Modifications P82 'Introduction of Zonal Transmission Losses on an Average Basis' (P82) (Reference 1) and P125 'Apportionment of the Scottish Interconnector Flows to the Northern and North Western GSP Groups for the Purposes of Calculating Losses' (P125) (Reference 2) scheduled for 1 April 2004.

The method to be used to prevent the implementation of 'Average Zonal Transmission Losses' (AZTL), the arrangements due to be introduced by P82 as modified by P125, is not specified - 'withdrawing' and 'disabling' the relevant system and documentation changes are cited as potential methods.

The Proposer believes that implementation of AZTL, as approved by the Authority, will have several negative consequences at variance with the achievement of the Applicable BSC Objectives.

First the alleged, but unproven, benefits that will be introduced by the long term 'economic signals'² of AZTL will be unlikely to be realised over the short period, of one year, for which it appears the arrangements will be in place. Following consultation on AZTL in the BETTA³ context, the DTI announced on 27 June 2003 that the benefits of AZTL were unproven, and in particular that the benefits would outweigh the costs was unproven. As a consequence, the DTI issued a statement indicating that "the Secretary of State and the Minister for Energy, E-Commerce and Postal Services, Stephen Timms, are not minded to designate Average Zonal Transmission Losses as part of the GB BSC". With BETTA scheduled to go live on 1 April 2005, this suggests that the AZTL arrangements will only be operational for one year. According to the Proposer, the probability of such a short period of operation has increased since June 2003. On 11 December 2003, the Energy Bill, which contains the legislation necessary for BETTA, received its second reading in the House of Lords. A milestone which the Authority previously indicated would constitute a point in time at which "the BETTA legislation could be seen to have attained a significant step towards forming part of the legal framework within which Ofgem will operate".

Second, whilst the development costs associated with the implementation of AZTL have already been incurred, work on the systems of market participants to accommodate the new arrangements has yet to be completed. The costs associated with such development work will ultimately be paid for by customers.

² In the context of AZTL, the term 'economic signals' has been used to refer to the incentives provided by the differential between zonal Transmission Loss Factors (TLFs) to locate assets within zones where TLFs are comparatively favourable.

³ 'BETTA' refers to the British Electricity Trading and Transmission Arrangements.

In summary, the probability that AZTL will be in place for only a year has increased. The purported benefits of the arrangements, in terms of long term economic signals, are unlikely to be realised over such a short timescale. In addition, market participants are still incurring costs, which will ultimately be paid for by customers, due to ongoing development work to accommodate AZTL. Therefore, given that the BETTA legislation is now progressing through Parliament, the Proposer believes that the implementation of AZTL should be reconsidered.

According to the Proposer, P156 would better facilitate the achievement of Applicable BSC Objectives (a), (c) and (d) which are as follows:

- Applicable BSC Objective (a): 'the efficient discharge by the licensee of the obligations imposed upon it by this licence';
- Applicable BSC Objective (c): 'promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity'; and
- Applicable BSC Objective (d): 'promoting efficiency in the implementation and administration of the balancing and settlement arrangements'.

Under Applicable BSC Objective (a), the Transmission Company is charged with the efficient discharge of obligations imposed upon it under the Transmission Licence. According to the Proposer, incurring costs, through the ongoing development work for AZTL amongst market participants, for no or negligible benefit, owing to the short period for which the AZTL arrangements will be operational, is counter to Applicable BSC Objective (a). Therefore, the immediate cessation of the implementation of AZTL and its removal from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (a).

Under Applicable BSC Objective (c), the trading arrangements should promote competition in the various sectors of the electricity market. According to the Proposer, the redistribution of the costs attributed to transmission losses between market participants for the twelve month period for which it appears AZTL will be in place will distort competition in the market through temporary gains and losses. In addition, the removal of AZTL would "increase confidence in the shape of the GB market going forward, thereby reducing the perceptions of risk, and hence cost, faced by all participants in the GB market". Therefore, the removal of AZTL from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (c).

Under Applicable BSC Objective (d), efficiency in the implementation and administration of the balancing and settlement arrangements should be promoted. According to the Proposer, the continuing development costs being incurred by market participants to accommodate AZTL, the costs that will be incurred to reverse the changes introduced by AZTL for BETTA Go-Live and the additional costs which might be incurred in preparation for the potential extension of AZTL to cover Scotland (e.g. the additional cost and complexity of requiring different loss allocation systems in the NETA live systems and the BETTA test systems) run counter to Applicable BSC Objective (d). Therefore, the immediate cessation of the implementation of AZTL and its removal from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (d).

BSCCo prepared an Initial Written Assessment (IWA), which was presented to the Panel at its meeting on 15 January 2004. By a majority, the Panel agreed with BSCCo's recommendation that P156 proceed directly to the Report Phase with a provisional recommendation that it

should be rejected. The rationale for the Panel's initial recommendation, and the discussion of the issues raised by P156, are documented in Section 4 of this report.

A draft Modification Report was issued for consultation on 22 January 2004, with a response deadline of 4 February 2004. Ten responses (37 Parties and 1 non-Party) were received. A summary of the responses is provided in Section 7, and all responses received are attached in full as Annex 4.

The Panel considered the draft Modification Report, including the consultation responses received, on 12 February 2004. As a consequence of the 30 January 2004 Authority determination that P82 should not be made, the Panel made a unanimous recommendation that P156 should not be made on the basis that it was now redundant. The consequences of the Authority P82 determination on P156 and the rationale for the Panel's recommendation are documented in more detail in Sections 2 and 4 respectively.

1.2 Request for Urgency

The Proposer requested that P156 be treated as urgent. The procedure for granting urgent status is described in F 2.9 of the Code. The initial requirement is that 'the Transmission Company and/or BSCCo recommend to the Panel Chairman that a proposal should be treated as an Urgent Modification Proposal'.

BSCCo believed that P156 did not meet the criteria previously applied to determine that a Modification Proposal should be granted Urgent status. Progressing P156 according to the normal Modification Procedure timetable would not pose a risk to the integrity of the Settlement process, impose disproportionate costs or introduce uncertainty. Moreover, BSCCo believed that P156 could be processed, without Urgent status, such that a determination could be received in sufficient time prior to the 1 April 2004 AZTL Implementation Date, to prevent implementation of those arrangements.

1.3 Proposed Modification

Details of the Proposed Modification are as outlined within the Modification Proposal. (See annex 1 of the Initial Written Assessment).

1.4 Issues raised by the Proposed Modification

BSCCo's IWA identified the following issues:

- **Issue One:** the Authority's initial determination on P82 and the determination on P125 each concluded that achievement of the Applicable BSC Objectives would be better facilitated by the proposals. No new issues relevant to the England and Wales Code have been raised by P156. The Proposer cites the fact that Scottish generators have made location and investment decisions based upon the separate Scottish trading arrangements and, that therefore, it would be discriminatory to apply AZTL to those generators. However, BSCCo believes that consideration of decisions made under the Scottish trading arrangements and of the implications of extending NETA to Scotland are outside the scope of the BSC.
- **Issue Two:** no Code changes, relevant to AZTL, have taken place since Modification Proposal P134 'The Halting of Unnecessary and Inefficient Work and Expenditure Associated with Approved BSC Modification P82' (P134) (Reference 3) was rejected by the Authority on 18 September 2003. P134, like P156, sought to remove the effect of

AZTL. The Proposer cites the Second Reading of the Energy Bill in Parliament as a relevant development. However, BSCCo believes that the entry into and progression through the Parliamentary process of a Government Bill is outside the scope of the Code. Moreover, there is still no certainty regarding the outcome of that process or the BETTA Go-Live Date.

- **Issue Three:** all central system development costs associated with the implementation of AZTL have already been incurred. Several of the central system and process changes made to give effect to AZTL would need to be disabled or removed to implement P156. The time and cost associated with this activity would depend on the method used to remove the effect of AZTL and, as mentioned previously, no method is specified under P156. Under certain methods, costs could be considerable.
- **Issue Four:** any modifications or enhancements already made to Party systems and processes would be made redundant by implementation of P156. However, any costs associated with developments yet to be made or completed would be avoided were P156 implemented.

1.5 Assessment of the Proposed Modification against the Applicable BSC Objectives

An Assessment Procedure was not undertaken; therefore P156 was not assessed by a Modification Group.

1.6 Modification Group's cost benefit analysis of Proposed Modification

An Assessment Procedure was not undertaken; therefore P156 was not assessed by a Modification Group.

1.7 Alternative Modification

An Assessment Procedure was not undertaken; therefore no Alternative Modification could have been developed.

1.8 Governance and regulatory framework assessment

The Proposer is of the opinion that AZTL needs to be reconsidered in light of the evolving statutory framework within which the Code exists. The second reading of the Energy Bill in Parliament, in December 2003, has increased the probability that BETTA will Go-Live on 1 April 2005 and that, therefore, AZTL will only be operational for a year. A period of time which the Proposer believes fundamentally alters the cost-benefit analysis of AZTL.

The majority of the Panel acknowledged the change in the political environment cited by the Proposer, but concluded that assessing the implications of the change was outside the vires of both a Modification Group and the Panel.

2 Revised Authority Determination on Modification Proposal P82

On 21 January 2004, the Authority submitted to the High Court judgement of the Judicial Review of its decision to approve Modification Proposal P82⁴. The judgement was that the

⁴ The Authority's initial determination on P82 was made on 17 January 2003.

decision was procedurally flawed and, as a consequence, a quashing order in respect of that decision was issued.

The Authority reconsidered P82 and, on 30 January 2004 (Reference 5), determined that it should not be made on account of both the deadlines contained in the Final Modification Report having passed. As a consequence, the Authority issued a direction to NGC to remove the modifications made to the BSC pursuant to the 17 January 2003 decision on P82.

However, the Authority noted that P125, a Modification consequential on the approval of P82 which it approved on 8 August 2003, had not been quashed and therefore formally still stands. Although, the Authority indicated that it would have no practical effect.

The consequences of the P125 decision still standing for P154 are threefold:

1. the only alleged defect in the Code identified by P156 is drafting introduced by P125;
2. the draft legal text for P156 has been revised to take into account that the changes to the Code introduced by quashed Authority decision to approve P82 in fact never took place (see Annex 1 for revised legal text); and
3. the determination deadline for the Implementation Date and the implementation cost have been revised to reflect the fact that implementation of P156 would now only need to remove the changes introduced by P125 (the reduced impact of P156 is reflected in sections 4 and 5 and a revised implementation approach is presented in section 9).

Please note that the Code changes introduced by P125, which overwrote and altered portions of the now non-existent P82 changes, will now appear as a fragmented Annex T-2 if implemented. A guide to the P156 legal text context is attached as Annex 3, it provides the changes that would have been introduced had Rejected Modification Proposal P82 been approved. **However, note that is not legal text and provided only to assist the comprehension of the reader.**

3 Costs⁵

PROGRESSING MODIFICATION PROPOSAL

Demand Led Cost	£0
ELEXON Resource	11 Man days £2,640

IMPLEMENTATION COSTS

⁵ Clarification of the meanings of the cost terms in this section can be found in annex 3 of this report

		Stand Alone Cost	P156 Incremental Cost	Tolerance
Service Provider⁶ Cost	Change Specific Cost	£0	£0	0
	Release Cost	£0	£0	0
	Incremental Release Cost	£0	£0	0
	Total Service Provider Cost	£0	£0	0
Implementation Cost	External Audit	£0	£0	0
	Design Clarifications	£0	£0	0
	Additional Resource Costs	£0	£0	0
	Additional Testing and Audit Support Costs	£0	£0	0
Total Demand Led Implementation Cost	£0	£0		

ELEXON Implementation Resource Cost		5 Man days £2,000	5 Man days £2,000	0
Total Implementation Cost		£2,000	£2,000	0

ONGOING SUPPORT AND MAINTENANCE COSTS

		Stand Alone Cost	P156 Incremental Cost	Tolerance
Service Provider Operation Cost		£ 0 pa	£ 0 pa	0
Service Provider Maintenance Cost		£0 pa	£0 pa	0
ELEXON Operational Cost		£0 pa	£0 pa	0

4 RATIONALE FOR PANEL'S RECOMMENDATIONS

The Panel first considered P156 at its 15 January 2004 meeting.

⁶ BSC Agent and non-BSC Agent Service Provider and software Costs

The Panel, unanimously, determined that P156 should be submitted to the Report Phase. The rationale for this determination was threefold. First, each Panel member believed that the recommendation which ought to be made to the Authority was self evident, although the members differed as to precisely what that recommendation should be (see below). Second, P156 ought to be expedited through the Modification Procedure so as to minimise any further uncertainty regarding the future of the zonal transmission loss arrangements amongst market participants. Finally, neither of the alternative options available to the Panel – submission to a Definition Procedure or to an Assessment Procedure – would have been appropriate. P156 was deemed sufficiently well defined not to warrant further definition and it was not obvious what issues, within the scope of the England and Wales Code, could be assessed by a Modification Group which had not already been considered during either the assessment of P82 or the P134 Report Phase.

Five Panel Members were of the opinion that P156 would not better facilitate achievement of the Applicable BSC Objectives. These members noted that the Authority determined that P82 would better facilitate the achievement of the Applicable BSC Objectives and shared ELEXON's view that, from the perspective of the England and Wales Code, no new issues had been raised by P156. As a consequence, there were no grounds upon which to re-evaluate the merits of zonal transmission losses.

Some of those Members were of the view that a material change in the political circumstances surrounding zonal losses had occurred with the second reading of the Energy Bill in Parliament, but concluded that assessing the implications of such a change was outside the vires of both a Modification Group and the Panel. In addition, it was noted that the Authority, in considering Modification Proposals, already had a broader remit than the Panel by virtue of its wider statutory duties and so would have the ability to assess P156 in a wider context. Additionally, the Authority was now consulting on proposed modifications in a Great Britain context and had just announced that it would conduct Regulatory Impact Assessments on 'significant' Modification Proposals.

Three Panel Members were of the opinion that P156 would better facilitate achievement of Applicable BSC Objectives (c) and (d). These members shared the view of the Proposer that, on the basis of the statement made by the Secretary of State that she was 'minded' not to designate zonal transmission losses as part of the GB BSC coupled with the progress of the Energy Bill through Parliament, there was now a greater probability that the zonal losses arrangements would be in place for only a short period of time (i.e. between their implementation on 1 April 2004 and the scheduled BETTA Go-Live date of 1 April 2005). As a consequence, these Panel Members felt that the cost-benefit analysis fundamentally altered – a short life-time for the arrangements would deliver none of the purported long-term benefits and would only serve to distort competition in the-short term.

In summary, the Panel, by a majority of five to three, made the provisional recommendation that P156 should not be made.

At its 12 February 2004, having considered the draft Modification Report and the accompanying consultation responses, the Panel made a unanimous recommendation that P156 should not be made.

The Panel was of the opinion that P156, which seeks to prevent the implementation of AZTL (i.e. P82 arrangements as modified by P125), had been rendered redundant by the revised Authority determination that P82 should not be made. As a consequence of that

determination, BSCCo was already in the process of backing out the changes made to give effect to the P82 arrangements.

The Panel noted the two respondents to the consultation on the draft P156 Modification Report who believed that P156 should be made so as to back out the remaining changes introduced by P125. However, the Panel believed that the intent of P156 was to prevent the implementation of the entire AZTL arrangements (i.e. the changes made pursuant to P82 and P125) on the basis that a political development had altered the long-term cost-benefit analysis and that, as such, P156 could not be used as a vehicle to remove the P125 changes alone. It was noted that the remaining changes introduced by P125 would be the subject of a subsequent Modification Proposal which provided a cleaner route for the removal of the redundant text.

5 IMPACT ON BSC SYSTEMS AND PARTIES

An assessment of the impact of P156 on BSCCo, BSC Systems and Parties was undertaken.

5.1 BSCCo

BSCCo identified the following impacts on its systems, processes and operations:

Area of Business	Potential Impact of Proposed Modification
BSCCo Procedures	BSCCo calculation of the zonal TLF applicable to Scottish Interconnector, Local Working Instructions (LWIs) and entries on the BSC Obligations Register associated with P125 will need to be discontinued.

Note that changes made to the Business Process Model and BSC Website will be removed, and the Model Reviewer contract discontinued, as part of the backing-out of the changes made pursuant to the quashed 17 January 2003 Authority decision to approve P82.

5.2 BSC Systems

No impacts on the BSC Systems have been identified. All changes introduced by the implementation of AZTL will be removed as part of the backing-out of the changes made pursuant to the quashed 17 January 2003 Authority decision to approve P82.

5.3 Parties and Party Agents

The no impacts have been identified. Any modifications or enhancements already made to Party systems and processes have already been rendered nugatory by the Authority decision to reject P82. Similarly the requirements for NGC to compile network data for use in the Load Flow Model and to provide technical advice on the Network Mapping Statement no longer exist as result of the quashing of the 17 January 2003 Authority decision to approve P82.

6 IMPACT ON CODE AND DOCUMENTATION

An assessment of the impact of P156 on the Code, Code Subsidiary Documents and other Configurable Items was undertaken.

6.1 Balancing and Settlement Code

The following impacts on the Code were identified:

Code Section	Potential Impact of Proposed Modification
T	Annex T-2, and reference to that Annex within Section T, would have to be removed. Annex T-2 provides a high-level description of the 'Transmission Loss Factor Methodology' and the 'Load Flow Model' used to generate zonal TLFs.
Annex X-2	The additional definitions, introduced by P82 as modified by P125 into these two annexes, would need to be removed.

6.2 Code Subsidiary Documents

No impacts on Code Subsidiary Documents have been identified. All changes introduced by the implementation of AZTL will be removed as part of the backing-out of the changes made pursuant to the quashed 17 January 2003 Authority decision to approve P82.

6.3 Other Configurable Items

No impacts on other Configurable Items have been identified. All changes introduced by the implementation of AZTL will be removed as part of the backing-out of the changes made pursuant to the quashed 17 January 2003 Authority decision to approve P82.

6.4 BSCCo Memorandum and Articles of Association

No impact has been identified by BSCCO.

6.5 Impact on Core Industry Documents and supporting arrangements

No impact has been identified by BSCCO.

7 SUMMARY OF CONSULTATIONS

Consultation question	Respondent agrees	Respondent disagrees	Opinion unexpressed
Do you agree with the Panel's views on P156 and the provisional recommendation to the Authority contained in the draft Modification Report that P156 should be not made?	3 (16)	6 (20 + 1)	1 (1)
Do you agree with that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal?	3 (17 + 1)	3 (16)	4 (4)
Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P156?	4 (18 + 1)	3 (16)	3 (3)

7.1 Summary of the consultation responses

Ten responses (37 Parties and 1 non-Party) were received to the consultation on the draft Modification Report. All responses received are attached as Annex 4 of this report.

Note that some responses were received prior to the 30 January 2004 Authority determination that P82 should not be made and some were received after it.

7.1.1 Provisional Panel Recommendation

Three respondents (16 Parties) supported the Panel's provisional recommendation that P156 should not be made. In light of the Authority determination on 30 January 2004 that P82 should not be made, these respondents believed that P156 would have no practical effect and was therefore redundant.

Six respondents (20 Parties and 1 non-Party) disagreed with the Panel's provisional recommendation that P156 should not be made. Four different rationales were put forward as to why P156 should be approved:

- **Rationale 1 - Halting Unnecessary Expenditure:** one respondent (4 Parties and 1 non-Party) believed that implementation of P156 would better facilitate achievement of Applicable BSC Objective (d) by preventing any more unnecessary expenditure by market participants on AZTL (i.e. removing need for further contractual negotiations and revision of Settlement systems).
- **Rationale 2 – Avoid Distortion of Competition and Halt Unnecessary Expenditure:** one respondent (3 Parties) believed, like the Proposer, that P156 would better facilitate achievement of Applicable BSC Objectives (a), (c) and (d). Unnecessary expenditure by market participants on AZTL is inefficient and counter to the efficient discharge by the Transmission Licensee of the obligations imposed on it by its licence. In addition, implementation of AZTL for a twelve month period would distort competition through a temporary redistribution of costs.
- **Rationale 3 – Mechanism to back out AZTL:** two respondents (11 Parties) believed that in light of the Authority determination that P82 should not be made, P156 would be an appropriate mechanism through which to suspend and remove AZTL from the trading arrangements.
- **Rationale 4 – Mechanism to back out P125:** two respondents (2 Parties) noted that the Authority indicated, in its determination that P82 should not be made, that its decision to approve P125 had not been quashed and hence still stood. As a consequence, these respondents believed that P156 would better facilitate achievement of Applicable BSC Objective (d) because it offered the most efficient mechanism for removing the redundant P125 text from the Code.

One respondent (1 Party) expressed no opinion on the Panel's provisional recommendation.

7.1.2 Draft Legal Text

Three respondents (17 Parties and 1 non-Party) agreed that the draft legal text issued for consultation would address the issue identified by P156.

Three respondents (16 Parties) believed that the draft legal text issued for consultation was no longer relevant given the Authority's determination that P82 should not be made.

Four respondents (4 Parties) did not comment on the draft legal text issued for consultation.

Note that the legal text which was consulted on has been revised to take into account the 30 January 2004 Authority determination on P82.

7.1.3 Implementation Date

Four respondents (18 Parties and 1 non-Party) supported the 1 April 2004 Implementation proposed by the Panel. These respondents supported a low cost implementation strategy which would give effect to P156 as soon as practicable and avoid a temporary introduction of AZTL.

Three respondents (16 parties) believed that the proposed Implementation Date was no longer relevant given the Authority's determination that P82 should not be made.

Three respondents (3 Parties) did not comment on the proposed Implementation Date.

7.1.4 Further Comments

Two respondents made further comments. One indicated that it remained opposed to AZTL on the grounds that it was not persuaded that the scheme would be in the interests of consumers. The other indicated that, in light of the High Court Judgement ruling the Authority's initial approval of P82 unlawful, the Panel should reverse its initial recommendation and recommend approval of P156.

7.2 Comments and views of the Panel

The Panel noted the consultation responses received. In particular, the Panel noted that the majority of respondents either (a) did not support P156 on the basis that it had been rendered redundant by the revised Authority determination on P82 or (b) supported it as a mechanism to back out AZTL necessary as a result of the revised Authority determination on P82.

8 SUMMARY OF TRANSMISSION COMPANY ANALYSIS

Since P156 proceeded directly from the IWA stage to the Report Phase, no analysis was sought from the Transmission Company.

9 SUMMARY OF EXTERNAL ADVICE

No external advice was sought on P156.

10 IMPLEMENTATION APPROACH

All changes pursuant to the quashed 17 January 2003 Authority decision to approve P82 will already be backed-out. As a consequence, only the changes introduced by P125 would need to be removed to implement P156. These are as follows:

- remove changes made to Annexes T-2 and X-2 of the Code;
- discontinue BSCCo calculation of the Scottish Interconnector TLF; and
- discontinue all BSCCo LWIs and entries in the BSC Obligations Register associated with P125.

BSCCo estimates that implementation of the above changes will require a lead-time of 5 Working Days and 5 Man Days of effort (approximately £2,000).

11 DOCUMENT CONTROL

11.1 Authorities

Version	Date	Author	Reviewer	Change Reference
0.1	21/01/04	Roger Salomone	Sarah Parsons	For Change Delivery Review
0.2	22/01/04	Roger Salomone	Industry	For Consultation
0.3	05/02/04	Roger Salomone	Sarah Parsons	For Change Delivery Review
0.4	05/02/04	Roger Salomone	Colin Berry	Final Change Delivery Review
0.5	06/02/04	Roger Salomone	BSC Panel	Decision
0.6	16/02/04	Roger Salomone	Sarah Parsons	Final Review
1.0	16/02/04	Roger Salomone	Authority	Decision

11.2 References

Ref	Document	Owner	Issue date	Version
1	Modification Proposal P82 (http://www.elexon.co.uk/docs/ta/modifications/modsprops/hP082/P82.pdf)	-	3 May 2002	-
2	Modification Proposal P125 (http://www.elexon.co.uk/docs/ta/modifications/modsprops/hP125/P125.pdf)	-	31 March 2003	-
3	Modification Proposal P134 (http://www.elexon.co.uk/docs/ta/modifications/modsprops/hP134/p134.pdf)	-	30 June 2003	-
4	Modification Proposal P156 IWA	ELEXON	9 January 2004	1.0
5	P82 Authority Decision Letter (http://www.elexon.co.uk/docs/ta/modifications/modsprops/hP082/P82_ofgem_decision.pdf)	Ofgem	30 January 2004	-

ANNEX 1 LEGAL TEXT

See separate attachment

ANNEX 2 GUIDE TO LEGAL TEXT

See separate attachment

ANNEX 3 CLARIFICATION OF COSTS

There are several different types of costs relating to the implementation of Modification Proposals. ELEXON implements the majority of Approved Modifications under its CVA or SVA Release Programmes. These Programmes incur a base overhead which is broadly stable whatever the content of the Release. On top of this each Approved Modification incurs an incremental implementation cost. In order to give Stakeholders a feel for the estimated cost of implementing an Approved Modification the templates shown in Attachment 1 have three columns:

- **Stand Alone Cost** – the cost of delivering the Modification as a stand alone project outside of a CVA or SVA Release, or the cost of a CVA or SVA Release with no other changes included in the Release scope. This is the estimated maximum cost that could be attributed to any one Modification implementation.

- **Incremental Cost** - the cost of adding that Modification Proposal to the scope of an existing release. This cost would also represent the potential saving if the Modification Proposal was to be removed from the scope of a release before development had started.
- **Tolerance** – the predicted limits of how certain the cost estimates included in the template are. The tolerance will be dependent on the complexity and certainty of the solution and the time allowed for the provision of an impact assessment by the Service Provider(s).

The cost breakdowns are shown below:

PROGRESSING MODIFICATION PROPOSAL	
Demand Led Cost	This is the third party cost of progressing a Modification Proposal through the Modification Procedures in accordance with Section F of the Code. Service Provider Impact Assessments are covered by a contractual charge and so the Demand Led cost will typically be zero unless external Legal assistance or external consultancy is required.
ELEXON Resource	This is the ELEXON Resource requirement to progress the Modification Proposal through the Modification Procedures. This is estimated using a standard formula based on the length of the Modification Procedure.

SERVICE PROVIDER⁷ COSTS	
Change Specific Cost	Cost of the Service Provider(s) Systems development and other activities relating specifically to the Modification Proposal.
Release Cost	Fixed cost associated with the development of the Service Provider(s) Systems as part of a release. This cost encompasses all the activities that would be undertaken regardless of the number or complexity of changes in the scope of a release. These activities include Project Management, the production of testing and deployment specifications and reports and various other standard release activities.
Incremental Release Cost	Additional costs on top of base Release Costs for delivering the specific Modification Proposal. For instance, the production of a Test Strategy and Test Report requires a certain amount of effort regardless of the number of changes to be tested, but the addition of a specific Modification Proposal may increase the scope of the Test Strategy and Test Report and hence incur additional costs.

⁷ A Service Provider can be a BSC Agent or a non-BSC Agent, which provides a service or software as part of the BSC and BSC Agent Systems. The Service Provider cost will be the sum of the costs for all Service Providers who are impacted by the release.

IMPLEMENTATION COSTS	
External Audit	Allowance for the cost of external audit of the delivery of the release. For CVA BSC Systems Releases this is typically estimated as 8% of the total Service Provider Costs, with a tolerance of +/- 20%. At present the SVA Programme does not use an external auditor, so there is no External Audit cost associated with an SVA BSC Systems Release.
Design Clarifications	Allowance to cover the potential cost of making any amendments to the proposed solution to clarify any ambiguities identified during implementation. This is typically estimated as 5% of the total Service Provider Costs, with a tolerance of +/- 100%.
Additional Resource Costs	<p>Any short-term resource requirements in addition to the ELEXON resource available. For CVA BSC Systems Releases, this is typically only necessary if the proposed solution for a Modification Proposal would require more extensive testing than normal, procurements or 'in-house' development.</p> <p>For SVA BSC Systems Releases, this will include the management and operation of the Acceptance Testing and the associated testing environment.</p> <p>This cost relates solely to the short-term employment of contract staff to assist in the implementation of the release.</p>
Additional Testing and Audit Support Costs	Allowance for external assistance from the Service Provider(s) with testing, test environment and audit activities. Includes such activities as the creation of test environments and the operation of the Participant Test Service (PTS). For CVA BSC Systems Releases, this is typically estimated as £40k per release with at tolerance of +/-25%. For SVA BSC Systems Releases this is estimated on a Modification Proposal basis.

TOTAL DEMAND LED IMPLEMENTATION COSTS
This is calculated as the sum of the total Service Provider(s) Cost and the total Implementation Cost. The tolerance associated with the Total Demand Led Implementation Cost is calculated as the weighted average of the individual Service Provider(s) Costs and Implementation Costs tolerances. This tolerance will be rounded to the nearest 5%.

ELEXON IMPLEMENTATION RESOURCE COSTS
Cost quoted in man days multiplied by project average daily rate, which represents the resources utilised by ELEXON in supporting the implementation of the release. This cost is typically funded from the "ELEXON Operational" budget using existing staff, but there may be instances where the total resources required to deliver a release exceeds the level of available

ELEXON resources, in which case additional Demand Led Resources will be required.

The ELEXON Implementation Resource Cost will typically have a tolerance of +/- 5% associated with it.

ONGOING SUPPORT AND MAINTENANCE COSTS	
ELEXON Operational Cost	Cost, in man days per annum multiplied by project average daily rate, of operating the revised systems and processes post implementation.
Service Provider Operation Cost	Cost in £ per annum payable to the Service Provider(s) to cover staffing requirements, software or hardware licensing fees, communications charges or any hardware storage fees associated with the ongoing operation of the revised systems and processes.
Service Provider Maintenance Cost	Cost quoted in £ per annum payable to the Service Provider(s) to cover the maintenance of the amended BSC Systems.

ANNEX 4 CONSULTATION RESPONSES

Responses from P156 Draft Report Consultation

Consultation issued 22/01/04

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	InterGen (UK) Ltd	P156_DR_001	4	1
2.	Corus	P156_DR_002	1	0
3.	British Gas Trading (BGT)	P156_DR_003	1	0
4.	Scottish Power UK plc	P156_DR_004	6	0
5.	Drax Power Limited	P156_DR_005	1	0
6.	RWE Trading	P156_DR_006	10	0
7.	energywatch	P156_DR_007	1	0
8.	Midlands Electricity	P156_DR_008	1	0
9.	EDF Energy	P156_DR_009	9	0
10.	British Energy Power & Energy Trading Ltd	P156_DR_010	3	0

P156_DR_001 – InterGen (UK) Ltd (Received on 28 January 2004)

Respondent:	<i>Chris Ridgway</i>
No. of BSC Parties Represented	4
BSC Parties Represented	<i>CECL, IETS, RPCL, SPAL</i>
No. of Non BSC Parties Represented	1
Non BSC Parties represented	<i>InterGen (UK) Ltd</i>
Role of Respondent	<i>Generator</i>

1.1	Question	Response	Rationale
1.	Do you agree with the Panel's views on P156 and the provisional recommendation to the Authority contained in the draft Modification Report that P156 should not be made? Please give rationale.	No	P156 should be made. Halting the introduction of zonal losses would prevent any more unnecessary expenditure for Participants by removing the need for further contractual negotiations and revision of Settlement systems. If P82 were to go ahead, all changes will subsequently need to be reversed from the start of BETTA resulting in further costs to Participants. Hence P156 better facilitates Applicable BSC Objective d.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P156? Please give rationale.	Yes	The implementation approach seems to be a practical means of delivering P156 from 1 st April 04.
4.	Are there any further comments on P156 that you wish to make?	No	

P156_DR_002 – Corus (Received on 28 January 2004)

Corus' response is as follows:-

Q1. No. Corus did not support the principle of zonal losses contained in P82 but did support P134. We therefore believe that P156 should be made. In this respect we were surprised that the Panel voted not to recommend P156 despite its previous opposition to P82 and support for P134. We agree with the proposer of P156 that the second reading in the Lords of the Energy Bill is material, as is the outcome of the Judicial Review more recently. Given that the latter was not known at the time of the Panel meeting on 15th January, we believe that this new information provides sufficient grounds for the next meeting of the Panel to reverse its earlier decision and recommend approval of P156 to Ofgem. Q2. No comment. Q3. Yes to an implementation date of 1st April 2004 although, if Ofgem decided to approve P156 after 27th February, it would be absurd to have zonal losses for what could be a few days or weeks. Urgent consideration should be given to shortening the lead time for implementation in such circumstances. Q4. No comment.

Please acknowledge receipt of this message.
Regards, Stephen Macey.

P156_DR_003 – British Gas Trading (BGT)

Dear Sirs,

Re: Modification Proposal P156 – Suspending the implementation of the Zonal Allocation of Transmission Losses

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P156. British Gas Trading (BGT) does not agree with the Panel's provisional recommendation and instead believe the modification should be made.

In light of the recent statement by Ofgem regarding their previous decision on Transmission Losses, BGT does not believe the defect specifically relating to P82 remains. However, P125 will remain in the BSC but have no practical effect. It is our opinion that without the implementation of P82 this legal text is redundant and should be removed. If possible, we believe the most efficient way to achieve this is to use P156. In this case, we believe this modification would better facilitate Applicable BSC Objective (d), promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

If you have any questions regarding this response please contact me 01753 431137.

Yours faithfully

Mark Manley
Contract Manager

P156_DR_004 – Scottish Power UK plc

Respondent:	John W Russell (SAIC Ltd)
No. of BSC Parties Represented	6
BSC Parties Represented	Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.; SP Transmission Ltd; SP Manweb plc.
No. of Non BSC Parties Represented	0
Non BSC Parties represented	
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

1.2	Question	Response	Rationale
1.	Do you agree with the Panel's views on P156 and the provisional recommendation to the Authority contained in the draft Modification Report that P156 should not be made? Please give rationale.	Yes	<i>In the light of the Authority's decision letter on Modification Proposal P82 dated 30th January 2004, Modification Proposal P156 would have no practical effect. We therefore agree with the Panel's provisional recommendation to the Authority that P156 should not be made.</i>
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	N/A	<i>With reference to the above answer; the legal text is no longer relevant.</i>
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P156? Please give rationale.	N/A	<i>With reference to the above answer; the implementation date is no longer relevant.</i>
4.	Are there any further comments on P156 that you wish to make?	No	<i>No further comments</i>

P156_DR_005 – Drax Power Limited

Respondent:	<i>Melanie Wedgbury</i>
No. of BSC Parties Represented	<i>One</i>
BSC Parties Represented	<i>Drax Power Limited</i>
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	<i>Generator</i>

1.3	Question	Response	Rationale
1.	Do you agree with the Panel's views on P156 and the provisional recommendation to the Authority contained in the draft Modification Report that P156 should not be made? Please give rationale.	Yes	In the light of Ofgem's statement on P82 30 January 2004) it would appear that P156 is redundant.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	n/a	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P156? Please give rationale.	n/a	
4.	Are there any further comments on P156 that you wish to make?	No	

P156_DR_006 – RWE Trading

Respondent:	<i>Name: RWE Trading</i>
No. of BSC Parties Represented	10
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant). RWE Trading GmbH, RWE Innogy, Innogy Cogen Ltd., Innogy Cogen Trading Ltd., npower Ltd., npower Northern Supply Ltd., npower Yorkshire Supply Ltd, npower Northern Ltd, npower Yorkshire Ltd. Npower Direct Ltd.</i>
No. of Non BSC Parties Represented	None
Non BSC Parties represented	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state ⁸) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>

1.4	Question	Response	Rationale
1.	Do you agree with the Panel's views on P156 and the provisional recommendation to the Authority contained in the draft Modification Report that P156 should not be made? Please give rationale.	No	In the light of the recent Authority decision on P82, it is appropriate to suspend the provisions associated with zonal losses.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P156? Please give rationale.	Yes	If the Modification were to be made, it is appropriate that it is implemented as soon as practicable.
4.	Are there any further comments on P156 that you wish to make?	Yes	The low impact solution identified by Elexon should be utilised to implement P156

⁸ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

P156_DR_007 – energywatch**P156 Consultation on the draft Modification Report**

P156 sought to remove the effect of P82 and P125 and withdraw or disable any system or documentation changes already incorporated into the BSC baseline, such that P82, as modified by P125, would not be implemented as originally planned from 1 April 2004. Since the submission of P156 and its consideration by the Panel, a quashing order has been made in respect of the Authority's P82 decision of 17 January 2003 and the matter remitted back to the Authority for reconsideration. On 30 January, the Authority rejected P82 and NGC was directed to remove the modifications that had been made to the BSC following the Authority's initial decision on P82. The Authority decision letter noted that P125 was consequential on the approval of P82 but that P125 was not quashed and therefore formally still stands.

energywatch considers that P156, or a P156 Alternative that seeks only to remove the modifications to the BSC relating to P125, would better facilitate applicable BSC objective (d).

energywatch remains opposed to the introduction of a zonal transmission losses scheme. We are not persuaded that the introduction of zonal transmission losses scheme as was proposed under P82 would be in the best interests of consumers.

Lesley Davies
Policy & Research Director
energywatch

P156_DR_008 – Midlands Electricity

Good Morning,

Midlands Electricity (Formally Aquila Networks PLC) would like to return a response of 'No Comment' to P156 Consultation on draft Modification Report.

Regards,

Deborah Hayward
Distribution Support Office &
Deregulation Control Group
Midlands Electricity

P156_DR_009 – EDF Energy

Respondent:	EDF Energy		
No. of BSC Parties Represented	9		
BSC Parties Represented	Jade Power Generation Ltd; EPN Distribution Limited; London Energy Plc; EDF Energy Plc; EDF Energy Networks (LPN) plc; Seeboard Power Networks plc; SEEBOARD Energy Limited; EDF Energy (Sutton Bridge Power) Ltd; EDF Energy West Burton Power Ltd.		
No. of Non BSC Parties Represented	None that we consider applicable.		
Non BSC Parties represented	N/A		
Role of Respondent	Supplier / Generator / Party Agent / Distribution Business		
1.5	Question	Response	Rationale
1.	Do you agree with the Panel's views on P156 and the provisional recommendation to the Authority contained in the draft Modification Report that P156 should not be made? Please give rationale.	Yes/No	See Question 4
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes/No	See Question 4
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P156? Please give rationale.	Yes/No	See Question 4
4.	Are there any further comments on P156 that you wish to make?	Yes	Following the Judicial Review and in light of Ofgem's letter on 30 th January 2004, that formally rejected P82, EDF Energy believe that P156 is no longer relevant and should be rejected.

P156_DR_010 – British Energy Power & Energy Trading Ltd

Respondent:	<i>Name</i> British Energy Power & Energy Trading Ltd
No. of BSC Parties Represented	3
BSC Parties Represented	<i>Please list all BSC Parties responding on behalf of (including the respondent company if relevant).</i> British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd
No. of Non BSC Parties Represented	
Non BSC Parties represented	<i>Please list all non BSC Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	(Supplier/Generator/ Trader / Consolidator)

1.6	Question	Response	Rationale
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1.6	Question	Response	Rationale
1.	Do you agree with the Panel's views on P156 and the provisional recommendation to the Authority contained in the draft Modification Report that P156 should not be made? Please give rationale.	No	<p>British Energy does not agree with the Panel's views for the following reasons:</p> <ol style="list-style-type: none"> 1. For market participants to continue to Incur costs, through the ongoing development work for AZTL for no or negligible benefit, owing to the short period for which the AZTL arrangements will be operational, is counter to Applicable BSC Objective (a). Therefore, the immediate cessation of the implementation of AZTL and its removal from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (a). 2. The redistribution of the costs attributed to transmission losses between market participants for the twelve-month period for which it appears AZTL will be in place will distort competition in the market through temporary gains and losses. In addition, the removal of AZTL would "increase confidence in the shape of the GB market going forward, thereby reducing the perceptions of risk, and hence cost, faced by all participants in the GB market". Therefore, the removal of AZTL from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (c). 3. The continuing development costs being incurred by market participants to accommodate AZTL, the costs that will be incurred to reverse the changes introduced by AZTL for BETTA Go-Live and the additional costs which might be incurred in preparation for the potential extension of AZTL to cover Scotland (e.g. the additional cost and complexity of requiring different loss allocation systems in the NETA live systems and the BETTA test systems) run counter to Applicable BSC Objective (d). Therefore, the immediate cessation of the implementation of AZTL and its removal from the trading arrangements, through P156, would better facilitate achievement of Applicable BSC Objective (d).
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P156? Please give rationale.	Yes	The proposed approach would appear to minimise the cost to parties.

1.6	Question	Response	Rationale
4.	Are there any further comments on P156 that you wish to make?	Yes	Since the BSC panel met the High Court has ruled that the procedures followed by the Authority in approving P82 were flawed and that the decision was therefore unlawful. In the light of this new information the BSC Panel should now reverse its decision and recommend the approval of P156.