

Responses from P25 Modification Report Consultation

Representations were received from the following parties:

No	Company	File Number
1.	BP Gas & Power	P25_MR_001
2.	SEEBOARD	P25_MR_002
3.	TXU Europe Energy Trading Ltd	P25_MR_003
4.	British Energy	P25_MR_004
5.	ScottishPower UK Plc	P25_MR_005
6.	London Electricity plc	P25_MR_006
7.	British Gas Trading	P25_MR_007
8.	Powergen UK plc	P25_MR_008

P25_MR_001 – BP Gas & Power

Thank you for your invitation to comment on the P25 Draft Modification Report.

As the proposer of this modification we are very disappointed with the BSC Panel's decision that the Alternative Modification, as developed by the Modification Group and defined in the Assessment Report, should not be made.

Based on the unanimous support of the Modifications Group, the Assessment Report asked The Panel to make their decision as to whether P25 better facilitated the objectives of the BSC on the basis of if the consequences of exposure to imbalance prices did or did not reasonably reflect costs imposed on the System by energy imbalances (Section 5.3 of the Assessment Report).

The BSC Panel did not make their decision on this basis.

The BSC Panel argued against the Modification on the basis of a number of other issues, including discrimination (as noted in the Modification Report), all of which had been discussed by the Modifications Group. However the Modifications Group all agreed that these issues were not of significance and that the point on which the Modification should be supported or rejected was the consequence of exposure to imbalance prices, as referred to above.

Section 26 of the Government Response to Ofgem's Reports on NETA (November 2001) states that the "Government's preliminary view is that the key to improving the market for all participants, but particularly smaller generators, is to seek to ensure that energy imbalance prices remain consistent with cost reflective principles." This suggests that the Government believe that the consequences of exposure to imbalance prices do not reasonably reflect costs imposed on the System by energy imbalances.

Given the materiality of this modification (as highlighted in Section 5.3.1 of the Assessment Report) we are disappointed that the BSC Panel did not take the advice of the experts that constituted the Modifications Group and make their decision on the basis of the consequences of exposure to imbalance prices.

We hope that The Authority will note the points above.

Yours sincerely,

Mark Simons
BP Gas & Power

P25_MR_002 – SEEBOARD

With respect to the above mentioned modification proposal, entitled "Commissioning Status in NETA". We agree with recommendations in modification report dated 29th October 2001 that this modifications proposal should not be made.

Dave Morton
SEEBOARD
0190 328 3465

P25_MR_003 – TXU Europe Energy Trading Ltd

Thank you for the opportunity to respond to the above modification report. TXU Europe Energy Trading (on behalf of all TXU Europe companies) support the recommendation that both the proposed modification and the alternative should be rejected.

Regards
Nicola Lea
Market Development Analyst
TXU Europe Energy Trading Ltd

P25_MR_004 – British Energy

British Energy support the recommendation of the BSC Panel on 18th October 2001 that both the modification proposal and the alternative proposal should be rejected.

We support the opinion ascribed to the Panel in the consultation draft report, that "relief from energy imbalance charges provided by the Alternative Modification constituted a cross-subsidy to one class of BSC Parties at the expense of other BSC Parties. The Panel considered that such a cross-subsidy would be discriminatory, and that hence the Alternative Modification (and by implication the Proposed Modification also) would not promote "effective competition in the generation and supply of electricity, and (so far as consistent therewith) ... such competition in the sale and purchase of electricity"."

Rachel Ace

for

British Energy Power & Energy Trading Ltd

British Energy Generation Ltd

Eggborough Power Ltd

P25_MR_005 – ScottishPower UK Plc

On behalf of ScottishPower UK Plc, Manweb Plc and Emerald Power Ltd. I would like to thank you for this opportunity to comment on the Draft Modification Report for P25 - Commissioning Status in NETA.

We have considered the views expressed by the Modification Group in respect of P25 and also followed the debate at the Panel. We would agree with the conclusion reached by the Panel that this proposal and its alternative both fail to meet the Applicable BSC Objectives, specifically, that they do not promote effective competition in the trading arrangements, as there is a great risk of cross-subsidising a small class of BSC Parties by excluding them from imbalance price exposure.

Should you wish to discuss these comments further, please do not hesitate to contact me.

James Nixon

Design Authority, Deregulation Services

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(Intranet)

P25_MR_006 – London Electricity plc

Many thanks for the opportunity to comment on the draft modifications report on mod P25. "The proposer argued that commissioning plant, by dint of its greater exposure to imbalance prices than commissioned plant, potentially could suffer considerable financial loss due the extreme nature of those prices" - our comment on this would be that this is quite correct.

However, we do agree with the findings of the panel that Mod P25 is not the best way to deal with this issue, as it does not better facilitate the objectives of the code and introduces perverse incentives relating to improvements in the performance of commissioning plant. We also note that the modifications group did spend a considerable amount of time attaching a materiality to the commissioning imbalance cost of commissioning plant of a typical (modern CCGT type) size, and came up with only £5 to £10m based on typical historic imbalance prices and commissioning output uncertainties; this is not as large as might have been guessed at, and is not that large in relation to the total construction and financing costs of an 800 MW CCGT. We suggest that this finding ought to be included within the draft report.

We note from informal feedback from the mods group that the group simply did not have sufficient time or resource to think fundamentally about this issue and develop a significantly different alternative proposal. Consequently, the alternative proposal differs only in respect of its non-retrospectivity (at the proposer's request), and in implementational respects that are designed to reduce the systems costs of achieving the basic effects of Mod 27. This is due to limited total resources in both the industry and Elexon to deal with the large number of modifications in process at present.

We note the panel's conclusion that the relief from energy imbalance charges provided by the Alternative Modification constituted a discriminatory cross-subsidy to one class of BSC Parties at the expense of other BSC Parties. We also note that the panel's view that the proposed modification provided an incentive for commissioning BM Units, which could satisfy the one of the Commissioning Status Exit Criteria (errors in output vs FPN), not so to do, so as to continue benefitting from the provisions of P27. This could impair, "the efficient, economic and co-ordinated operation by the Licensee of the Licensee's Transmission System".

We agree with the panel's findings.

Yours sincerely,

Liz Anderson

(London Electricity plc on behalf of itself, SWEB Ltd, Sutton Bridge Power and Jade Power Generation)

P25_MR_007 – British Gas Trading

Modification Proposal 25: Commissioning Status in NETA

Thank you for the opportunity of responding to this modification proposal. British Gas Trading (BGT) do not support this modification proposal or its alternative as better facilitating the Applicable BSC Objectives.

BGT acknowledge the argument that the high imbalance prices currently being experienced may act as a disincentive to the development of new plant and could conceivably constitute a barrier to entry. However, we do not agree that protecting one section of the industry will promote competition overall and so suggest that this then fails to meet Applicable BSC Objective c) as suggested. Also, imbalance prices are only one of many issues to be taken into account when a new project is being considered. It is unlikely that a project will stand or fall on the basis of imbalance prices alone. We would also argue that there is no guarantee that new plant will be commissioned by new entrants as opposed to existing Parties.

We support the view of the Panel that the proposal will cross subsidise on class of BSC Party at the expense of others. BGT do not believe it is not appropriate to favour one section of the market over others. This distorts the market and acts against Applicable BSC Objective c).

We are also unhappy with a modification that seeks to mitigate the effect of imbalance prices when there are past and current modifications that are considering imbalance prices. Once the impact of these modifications have been felt the penalties associated with imbalance should be reduced.

Yours faithfully
Danielle Lane
Transportation Analyst

P25_MR_008 – Powergen UK plc

Thank you for giving us the opportunity to comment on this proposal. Powergen UK plc ('Powergen') provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited and Cottam Development Centre Limited.

Powergen supports the Panel's recommendation that both the proposed modification and alternative modification are **not implemented** as outlined in the Modification Report.

Powergen continues to believe that implementing either of the proposals would be discriminatory as they would result in a cross-subsidy of one class of BSC Party at the expense of other BSC Parties. Therefore the applicable BSC objectives would not be met.

Regards
Chris Price
Strategy & Regulation
Powergen UK Plc