

Responses from P90 Draft Report Consultation

Consultation issued 25 October 2002

Representations were received from the following parties:

No	Company	File Number	No. Parties Represented
1.	Powergen	P90_DR_001	12
2.	Scottish and Southern	P90_DR_002	4
3.	Scottish Power	P90_DR_003	3
4.	SEEBOARD	P90_DR_004	1
5.	Innogy	P90_DR_005	7
6.	Edison Mission (late response)	P90_DR_006	1

P90_DR_001 – Powergen

P90 Modification Report Comments

This response is made on behalf of 12 BSC Parties* in the Powergen group. Powergen believes that P90 original and its alternative would better meet the relevant BSC objectives. Our preference would be for the original modification.

It appears that the crucial factor in the rejection of the original modification was that it was considered that it would provide a worse split between actions taken for energy and system purposes. It is often very difficult, if not impossible, to determine which actions are taken for which purpose. Therefore, any rule which attempts to make the split does so in a manner which is somewhat arbitrary, for example on the basis that they are only for a short period of time or are expensive.

Our support of P90 is on the basis that it uses a single method, trade tagging, to determine this split and takes into account all trades individually. We do not consider that is any more or less cost reflective than the present baseline. It does however provide a simpler and more transparent methodology that does not rely on the judgement of NGC who may benefit from how the split is made under their incentive scheme.

The alternative proposal appears to have wider support in the modification group, but has been rejected because the strict timescales of the modification process did not allow enough time for it to be considered fully. We understand this reasoning and agree with the group's decision on this basis. However, we feel that the proposal has merit and are disappointed that it was not possible to consider it further.

Yours sincerely,

Paul Jones

Trading Arrangements

(* Powergen UK plc, Powergen Retail Limited, Diamond Power Generation Limited, Cottam Development Centre Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited.)

P90_DR_002 – Scottish and Southern

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

In relation to the draft Modification Report for Proposed Modification P90 contained in your note of 25th October 2002; we agree with the suggested BSC Panel recommendation to the Authority that this Modification proposal P90 should not be made.

Regards

Garth Graham
Scottish & Southern Energy plc

P90 Draft Modification Report Comments

With reference to the above, we would reiterate the views, which we expressed in previous responses, when rejecting P90: 'Improving the Representation of Energy Balancing Actions in Cashout Prices'. We could only tentatively support its Alternative (Option 7) as there was insufficient analysis (due to the P90 timetable) to show that it is more cost-reflective of energy balancing actions than the current P78 baseline. We however believe that certain aspects of P90 and its Alternative have their merits, in particular the use of individual BSAD trades data in determining the Net Imbalance Volume.

In this consultation, we therefore support the Panel's recommendation in rejecting P90.

We would also re-state our view on all previous pricing modifications that a holistic approach should be adopted and a complete solution to the problems be identified, by the newly established Pricing Issues Standing Group including issues raised in P90. In our view, this would provide a more efficient and cost-effective method of dealing with market participants' concerns than the hitherto piecemeal approach, which leads to greater uncertainty in the market.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu
Calanais Ltd.

For and on behalf of: - *ScottishPower Energy Trading Ltd.; Scottish Power Generation Plc.;
ScottishPower Energy Retail Ltd.;*

P90_DR_004 – SEEBOARD Energy

With respect to draft modification report for P90 (Improving The Representation Of Energy Balancing Actions In Cashout Prices), dated 25th October 2002. We agree with recommendation within section 1.1 that this modification is not made to BSC.

Dave Morton
SEEBOARD Energy Limited

P90_DR_001 – Innogy

Draft Modification Report Modification Proposal P90 – Improving the Representation of Energy Balancing Actions in Cash-out Prices Innogy Comments

The following comments are made on behalf of Innogy plc, Npower Limited, Innogy Cogen Trading Limited, Innogy Cogen Limited, Npower Direct Limited, Npower Northern Limited, Npower Yorkshire Limited.

We support the recommendation of the BSC panel to reject proposed modification P90.

Ofgem's decision to implement Modification Proposal P78 has changed the basis for calculating cash-out prices and the treatment of system and energy balancing actions. Consequently P90 can no longer be implemented in its current form.

Innogy supports the release of greater information on NGC forward trading. However, the use of this information in the process of setting cash-out prices requires further evaluation, particularly in the context of P78.

P90_DR_006 – Edison Mission

This modification report focuses on the reasons for rejecting the original modification. An alternative was developed that attracted widespread support amongst members of the modification group and in the consultation responses. The alternative to P90 removed short duration trades from cashout prices as this difference was perceived to be the main drawback of the original modification, and as a result of the Authority's 'steer' on P78, used a market price for the reverse price.

It is unfortunate that this final alternative to P90 was not given further time to allow assessment of the impact, the implementation timescales or costs. It is also unfortunate that the difficulty in carrying out this analysis (which the Modification Report states was due to the complexity of the mechanism) was sufficient to cause the rejection of P90 when the lack of analysis did not apply to P78 which was approved by the Authority in September. P78 has far more complex mechanism than the alternative to P90.

Whilst the issues raised by P90 could, as suggested in the Modification Report, be discussed at the PSMG, they were discussed extensively at the P90 mod group. The final alternative, included disaggregated NGC trades in the bid and offer stacks and used a mechanism to differentiate between system and energy trades rather than a judgement by NGC. Were a BSC party to raise these issues, the PSMG will continue the discussion of the merits of this final alternative and it is likely that the views expressed at the mod group will persist. To make progress, the group will first have to challenge the views of the Authority. To quote from the Authority's P78 decision document " NGC.... is best placed to be able to analyse the extent to which the costs of System Balancing actions are affecting Energy Imbalance Prices". The essence of this modification is whether a mechanism is better than a judgement.

regards

Libby Glazebrook
Edison Mission Energy