

Responses from P95 Draft Report Consultation

Consultation issued 18 December 2002

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented
1.	SEEBOARD Energy	P95_DR_001	1
2.	LE Group	P95_DR_002	7
3.	British Gas Trading	P95_DR_003	1
4.	Slough Energy Supplies	P95_DR_004	1
5.	Aquila Networks	P95_DR_005	1
6.	Innogy	P95_DR_006	9
7.	Scottish Power	P95_DR_007	6
8.	British Energy	P95_DR_008	3
9.	Scottish and Southern	P95_DR_009	4
10.	Powergen (late response)	P95_DR_010	1

P95_DR_001 – SEEBOARD Energy

With respect to draft modification report for P095 (Transitional Amelioration of Barriers to Licenced Exempt Generators' Market Participation) dated 18th December 2002. We agree with recommendations contained in section 1.1 of this report that neither main nor alternate modification be made.

Dave Morton
SEEBOARD Energy Limited

P95_DR_002 – LE Group

Dear Modifications

LE Group is pleased to see that the recommendation from the Panel is to reject both P95 and its Alternative.

We DO NOT support this Modification Proposal.

This reply is sent on behalf of: LE Group Plc, London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power Ltd, West Burton Power, London Power Network Plc, and Eastern Power Network Distribution Ltd, ECS.

With kind regards, Paul Chesterman
for Liz Anderson
General Manager, Energy Strategy & Regulation

P95_DR_003 – British Gas Trading

Modification Proposal P95 : Transitional Amelioration of Barriers to Licence Exempt Generators' Market Participation

Thank you for the opportunity of responding to this consultation. British Gas Trading Ltd supports the Panel's view that neither the original proposal nor the alternative proposal should be implemented.

We consider that the implementation of either the proposal or the alternative would introduce a cross subsidy between Parties and as such would be against Applicable BSC Objective (c). In addition, we believe that either proposal would, if adopted, incentivise Parties to a position of imbalance as they would have a "buffer" zone of the Exemptable Generating Plant capability, thus not facilitating Applicable BSC Objective (b).

Furthermore, we believe that this modification does not address a specific fault of the BSC, it merely addresses a "perceived failing" with financial compensation, and as such we cannot support it.

If you require any further information, please contact me on the number above.

Yours faithfully

Sarah Grimes
Commercial Manager

P95_DR_004 – Slough Energy Supplies

P95 Report Comments

We are responding on behalf of Slough Energy Supplies Limited, the Proposer of P95, to the draft Modification Report, issued on 18th December.

In response to the draft report, we wish to reiterate all the points made in our response to the P95 Assessment Consultation, sent on behalf of the Proposer on 22nd November. In addition, we have the following specific points on the draft:

Paragraphs 5 and 7

The draft Modification Report makes no mention of one of the central themes of P95, namely that LEGs are exposed to the same imbalance risk as larger generators, but, unlike larger generators, are unable to manage their imbalance risk by trading in the NETA markets. This is stressed both in the P95 proposal itself and in our response to the P95 Assessment Consultation and was also emphasized by us in numerous P95 Modification Group meetings. It is this which lies at the heart of the discriminatory nature of NETA as it affects LEGs. It is important that this point is at least referred to in any discussion of the arguments put forward in favour of P95 and it seems to us that the most logical place for this to appear would be in paragraph 5 (Rationale for the Panel Recommendations) and/or paragraph 7 (Assessment).

Paragraph 7.1

The second paragraph under 7.1 is intended to reflect the arguments in favour of P95 and reflect the view that “LEGs were already discriminated against elsewhere in the trading arrangements and that P95 would compensate for this”. The Proposer has never used the term “compensate” in relation to P95 and indeed always objected when this term was used in P95 Modification Group meetings. The use of “compensate” is misleading in this context as it implies a payment of money from one party to another. This is not the effect of P95; as the Proposer has made clear throughout the Definition and Assessment procedures, P95 is intended to ameliorate the existing discriminatory effects of NETA on LEGs by making an alteration to the imbalance pricing mechanism, so that the risk LEGs carry more fairly reflects the extent to which the NETA structure enables them to manage it. We would therefore prefer to amend the final sentence of paragraph 7.1 to read as follows: “Other members of the group felt that LEGs were already discriminated against in the trading arrangements, given that they are unable to manage their imbalance risks in the same way as larger generators. The proponents of this view emphasized that P95 was aimed at addressing the adverse affects of this discrimination against LEGs”.

Paragraph 7.2

The first line of the second paragraph under 7.2 should read “other members believed that P95 also directly addresses ...”. It is important to emphasize the view of P95’s supporters that P95 addresses the embedded benefit barrier as well as the cost reflectivity barrier. The third paragraph under 7.2 implies that the entire P95 Modification Group agreed that a lack of cost reflectivity needed to be shown in order to assess whether P95 better facilitates the applicable BSC objectives. As we emphasized in a number of P95 Modification Group meetings, any attempt to give the impression that cost reflectivity was the only issue under P95 is misleading. This ignores the other three market barriers identified in P95, which exist independently of the cost reflectivity issue, although they are clearly exacerbated by the lack of cost reflectivity. In addition, this ignores the issue of LEGs’ inability to manage imbalance

risk, which again exists independently of cost reflectivity concerns. It is important that the views of the supporters of P95 be reflected here.

Paragraph 7.3 and 7.4

These paragraphs discuss the issues of incentive to balance and cross-subsidy, which, it is clear from paragraph 1.3, constitute the basis for the Panel's recommendation that both the Proposed Modification and the Alternative Modification should not be made. Given that these factors were so important in the Panel's decision-making process and the fact that these concerns were addressed on behalf of the Proposer both in meetings of the P95 Modification Group and in the Assessment Consultation response, it is important that balance is maintained by reflecting these views, as well as those of the opponents of P95. We suggest that these paragraphs be amended as follows:

7.3: Add the following after the second sentence of the first paragraph: "However, others in the group rejected the proposition that P95 would remove the incentive to balance for LEGs. The Proposer emphasized that it recognised the need to retain an incentive to remain in balance. It argued that P95 achieved this, given that the current imbalance risk imposed on LEGs is disproportionate to their ability to manage it and the effect of P95 would be to reflect that by removing the penal element of imbalance charges. The supporters of P95 pointed out that under P95, LEGs would have no means of controlling or predicting SSP or SBP (which would still determine the imbalance charges under P95) and so would remain incentivised to avoid exposure to these prices".

7.4: Add after the first paragraph under 7.4: "The Proposer disputed the relevance of the "cross-subsidy" argument, on the basis that this relied upon the assumption that NETA already enabled LEGs to gain proper access to the market. The Proposer's view was that, for the reasons set out in P95, the true position is that the market unduly disadvantages LEGs.

In the final paragraph of 7.4, there is reference to a view expressed by some P95 Modification Group members that they did not see a difference between imbalances from LEGs or other premises. As explained above, the difference lies in LEGs' inability to balance their own imbalance risk and if this paragraph is to be retained, we would like to ensure that this point is referred to here, to ensure a balanced view is given.

Paragraph 8

We note that the majority of paragraph 8 is necessarily incomplete, given that it will reflect the responses to this consultation. We will therefore need to reserve our position in relation to the text which appears at paragraph 8 once the responses have been received. We did, however, note that at 8.3 there is reference to "the arguments raised in the consultation responses against P95" being presented at the Panel meeting of 16 January 2003. Presumably the arguments in favour of P95 will be presented, to ensure a fair and balanced review of the responses.

Yours sincerely,

DAVID LYON

P95_DR_005 – Aquila Networks

Please find that Aquila Networks Plc response to P95 Consultation on draft Modification Report is 'No Comment'.

regards

Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P95_DR_006 – Innogy

Draft Modification Report

Modification Proposal P95 – Transitional Amelioration of Barriers to Licenced

Exempt Generators' Market Participation

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 Npower Northern Supply Limited, Npower Yorkshire Supply Limited.

We note that the BSC Panel is recommending that the Authority rejects both Modification Proposal P95 (P95) and Alternative Modification P95A (P95A).

We support the Panel's recommendation with regard to both P95 and P95A. We do not believe that either modification would better facilitate the achievement of the relevant BSC objectives.

P95_DR_007 – Scottish Power

P95 Draft Modification Report Comments

For and on behalf of: - *Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc*

With reference to the above, we would reiterate our views, which we have previously expressed in rejection of P95: "Transitional Amelioration of Barriers to Licenced Exempt Generators' Market Participation", in particular, the fact that: -

- It was discriminatory to other BSC Parties;
- LEGs have other options by which to reduce their exposure to the imbalance price risks, which are faced by all participants; and
- The considerable cost involved on changes where only a limited number of participants may wish to use the proposed solution does not promote efficiency in the implementation of the trading arrangements.

In this Consultation, we therefore agree with the Panel's view that both the Proposed Modification P95 and the Alternative Proposal P95 do not better facilitate the Applicable Objectives ((c) and (b)) and support the recommendation that these proposals should not be made.

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: - *Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb*

P95_DR_008 – British Energy

o: Modification Secretary

From: Rachel Ace

Date: 6 January 2003

British Energy agrees with the recommendation in the Draft Modification Report that P95 or P95 alternative modifications should not be made. To change the BSC to implement this proposal would introduce a cross-subsidy resulting in distortions to the market which would have an adverse effect on competition. We also believe that the introduction of this modification would not incentivise Parties to balance their positions, therefore these modification would not better facilitate the objectives of the BSC.

Rachel Ace

On behalf of

British Energy Generation Ltd
British Energy Power and Energy Trading Ltd
Eggborough Power Ltd

P95_DR_009 – Scottish and Southern

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

Further to your note of 18th December 2002, and the associated Draft Modification Report for P95, we agree with the proposed BSC Panel recommendation to the Authority that the Original and Alternative Modification Proposal P95 should not be made.

If the Modification Proposal P95 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in Section 1.1 of the Draft Modification Report.

Regards

Garth Graham
Scottish & Southern Energy plc

P95_DR_010 – Powergen

P95 Report Comments

Powergen agrees with the Panel that P95 does not better meet the applicable BSC objectives and should therefore be rejected. We have no new arguments to make over and above those made in our previous submissions, so do not propose to restate our detailed views. However, in summary, our arguments for supporting the Panel's position are:

- We do not agree with the defects described in the modification proposal.
- The modification does not attempt to address the claimed defects, so is inappropriate anyway.
- The proposal would introduce a cross subsidy from Parties who do not register LEGs, to those who do.

Yours sincerely,

Paul Jones
Trading Arrangements