

Responses from P205 Urgent Modification Consultation

Consultation Issued 22 August 2006

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Good Energy	P205_UM_01	1	0
2.	SmartestEnergy	P205_UM_02	1	0
3.	International Power	P205_UM_03	4	0
4.	RWE Trading GmbH	P205_UM_04	11	0
5.	Chemical Industries Association	P205_UM_05	0	1
6.	Scottish Power	P205_UM_06	7	0
7.	Scottish and Southern	P205_UM_07	5	0
8.	E.ON UK Energy Services Metering	P205_UM_08	0	1
9.	E.ON UK	P205_UM_09	13	0
10.	EDF Energy	P205_UM_10	9	0
11.	ConocoPhillips (U.K.) Limited	P205_UM_11	2	0
12.	Gaz De France ESS	P205_UM_12	1	0
13.	Centrica	P205_UM_13	9	0
14.	Alcan Smelting and Power UK.	P205_UM_14	0	1
15.	British Energy	P205_UM_15	5	0
16.	National Grid	P205_UM_16	1	0
17.	BizzEnergy	P205_UM_17	1	0
18.	Barclays Bank Plc	P205_UM_18	1	0

P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Chris Welby</i>
Company Name:	<i>Good Energy Ltd</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>Good Energy Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>Supplier</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	Yes for the purposes set out by the proposer
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	500MWh	For the purpose set out by the proposer
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	

Q	Question	Response	Rationale
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	No	

Parties are encouraged to provide financial information with regard 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 **15:00 on Wednesday 30 August 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P205 Urgent Modification Procedure 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 Tom Bowcutt on 0207380 4309, email address thomas.bowcutt@elexon.co.uk

P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Colin Prestwich</i>
Company Name:	<i>SmartestEnergy Ltd</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>SmartestEnergy Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>None</i>
Non Parties represented	
Role of Respondent	<i>(Supplier/ Trader / Consolidator)</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	It improves efficiency by reducing unfairly reallocated rc/rc and encourages competition by reducing the likelihood of new entrants being deterred due to high imbalance risk.
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?		100 is clearly far to low as this will result in highly punitive system prices when trading out is not possible on the exchange.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	But we support making PAR a variable which can be altered by the panel depending on market conditions. It is clearly sensible to start at a higher number and adjust downwards if necessary; to start at 100 will almost certainly over-egg the pudding and cause small suppliers in particular significant and unnecessary risk this winter.

Q	Question	Response	Rationale
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	Yes / No	

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Respondent:	<i>Libby Glazebrook</i>
Company Name:	<i>International Power plc</i>
No. of BSC Parties Represented	<i>4</i>
Parties Represented	<i>Deeside Power Development Co Ltd, First Hydro Company, Rugeley Power Generation Ltd, Saltend Cogeneration Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>None</i>
Non Parties represented	<i>None</i>
Role of Respondent	<i>Supplier/Generator</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
1.	<p>Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)</p>	No	<p>P194 moves cashout prices closer to the marginal cost of generation – a signal that should be expected in an efficient and economic market. The analysis provided by ELEXON shows that P205 makes little difference to cashout prices compared to the current pre P194 baseline. P205 does not therefore better facilitate Objective B</p> <p>One of the defects in the current arrangements identified by the Proposer is that it is difficult to deal with a change in position because the market is illiquid. The analysis undertaken for BSC mods P201 and P202 showed that only 3% of PX trades were All or Nothing, the rest were available to trade in 1MWh increments. Therefore, whilst there may be a lack of liquidity in the market, it is not a problem that is unique to smaller players. Whilst P205 might provide some protection against high cashout prices, it will not address this lack of liquidity, in fact it may make it worse as it reduces the incentive to balance. P205 won't therefore better facilitate competition in the sale and purchase of electricity (objective c). The more fundamental problem of the lack of liquidity needs to be resolved outside of the BSC arrangements.</p>
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	100MWh	This has been discussed at length under P194. Other values of PAR were considered and discarded in the assessment of P194.
4.	Do you have any comments on the draft legal text?	No	
5.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i></p>	No	Alternative solutions would involve changing the value of PAR. Any value is difficult to justify.
6.	<p>Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i></p>	No	

Q	Question	Response	Rationale
7.	Are there any further comments on P205 that you wish to make?	No	

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Respondent:	<i>Bill Reed</i>
Company Name:	RWE Trading GmbH
No. of BSC Parties Represented	11
Parties Represented	<i>Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant). RWE Trading GmbH, RWE Npower plc, Great Yarmouth Power Ltd, Npower Cogen Trading Ltd, Npower Commercial Gas Ltd, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	None
Non Parties represented	<i>Please list all non 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 / Distributor / other – please state ¹) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	We believe that the introduction of a PAR value of 500MWh will dilute the benefits associated with P194 and will impact on Objective B in relation to the cost of balancing the system when compared with the current baseline. However we would note that P205 illustrates the arbitrary nature of the PAR value and we would support the development of robust and objective criteria for defining the marginal cost of energy in the balancing mechanism.

¹ Delete as appropriate – please do not use knockout, this is to make it easier to analyse the responses

Q	Question	Response	Rationale
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?		We believe that the PAR value proposed under P205 is arbitrary. Any other value is arbitrary in the absence of any robust or objective criteria for setting the value.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	No	

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Respondent:	<i>Helen Bray</i>
Company Name:	<i>Chemical Industries Association</i>
No. of BSC Parties Represented	
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	<i>140</i>
Non Parties represented	
Role of Respondent	<i>Trade Association</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	<p>CIA believes that Applicable BSC Objective (b) and (c) are better facilitated.</p> <p>Applicable BSC Objective (b) CIA believes that parties may take have different strategies under P205 which could reduce the overall level of balancing required by the Transmission Company, benefiting the efficient operation of the Transmission System.</p> <p>Applicable BSC Objective (c) CIA considers that increasing PAR to 500 would help to reduce a barrier to market entry and help to promote 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 competition. The electricity market already suffers from a lack of suppliers and more extreme cash-out prices are a barrier to entry.</p>
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	Yes	We note the PAR 100 causes SBP to rise when the system is not tight, and means that SSP could be polluted by system actions.

Q	Question	Response	Rationale
3.	Please outline the PAR value you believe is most appropriate and provide rationale?		
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	No	

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Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
	<p>Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)</p>	Yes	<p>ScottishPower believe that this modification does better facilitate the achievement of the applicable BSC objectives in the following ways:</p> <p>Objective (b) P205 will retain the benefit of a stronger signal to Parties to balance their position without the inherent unmanageable risks of a PAR value of 100MWh. The less penal effect will also promote more generation capacity to be made available for the market and at times of system stress.</p> <p>Objective (c) P205 offers a less penal scheme than P194, which will help safeguard competition in the market. The stronger signal under P194 is retained under P205 in times of system stress without penal costs where there is a genuine inability to balance. P194 greatly increases the risk to the market that some of these smaller Parties will default. P205 will reduce this risk, avoiding a significant increase in the cost to all participants in managing their</p>

Q	Question	Response	Rationale
			risk exposure. This would be better for promoting competition than the P194 baseline.
	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	Yes	<p>ScottishPower agree with the views that a PAR value of 500 MWh:-</p> <ul style="list-style-type: none"> ▪ would still give the required pricing signal for balancing at time of system stress while reducing penal and volatile impacts; ▪ would minimise further the potential of a single corporate entity's attempt to influence the market.
	Please outline the PAR value you believe is most appropriate and provide rationale?	500MWh	<p>We support the proposer's view that a PAR value of 500MWh is a more reasonable figure than the P194 value of 100MWh for the reasons highlighted above. Our initial analysis suggests that a figure of 500MWh retains approximately 35% of the effect of a value of 100MWh. This and other analysis showed that the correct pricing signal will still be sent at times of system stress, while minimising the unhedgeable risk exposure inherent in the P194 baseline and cash out pricing calculation.</p>
	Do you have any comments on the draft legal text?	No	
	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p><i>Please give rationale</i></p>	No	<p>ScottishPower agree with the views that:-</p> <ul style="list-style-type: none"> ▪ Due to the nature of and impact on imbalance exposure, any changes to the pricing calculation should be subjected to the full rigour of modification procedure and Authority decision; ▪ 500 MWh is an appropriate PAR value as discussed above.
	<p>Does P205 raise any issues that you believe have not been identified so far and that should be consider?</p> <p><i>Please give rationale</i></p>	No	
	Are there any further comments on P205 that you wish		

Q	Question	Response	Rationale
	to make?	Yes	<p>P205 reduces the other wider detrimental effects of P194:-</p> <ul style="list-style-type: none"> ▪ The current P194 baseline gives significant risk exposure to suppliers (as evident in the recent numbers of urgent modification proposals). The resultant increase in costs on risk management could only ultimately increase costs to the consumers; ▪ P194 provides a major disincentive to renewable and other single or inflexible generators and while both of these are not under the remit of the BSC, it should be factors to be considered in the Authority's decision.

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From: Garth Graham
Sent: 30 August 2006 11:37
To: Modification Consultations
Cc: Thomas Bowcutt
Subject: Re: P205 Urgent Modification Consultation - responses requested by 5pm on Tuesday 30 August 06

Dear Sirs,

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

In relation to the seven questions contained within your note of 22nd August 2006, and the associated Urgent Modification Consultation for P205, we have the following comments to make: -

Q1. Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)

Yes. Whilst we do not support the concept of a PAR value if one has to be set then, based on arguments outlined in section 3.1.2 of the P205 consultation report, we support a PAR value of 500MWh.

We note the Authority summary (pg 8-12 of its P136 decision letter) of "the substantive points [of concern] raised" as being: -

- a) Cost Reflectivity;
- b) Incentives to balance;
- c) Self balancing;
- d) Demand forecasting;
- e) Bid and Offer pricing;
- f) Smaller generators and new build;
- g) Risk management;
- h) Transparency;
- i) Gaming;
- j) RCRC;
- k) Credit cover; and
- l) Additional amendments to the tagging rules.

For all these items we believe that P205 better minimises/eliminates these substantive points of concerns which apply (given the approval of P194) to the current Code baseline. Therefore implementing P205 will better facilitate the achievement of the Applicable BSC Objectives.

Q2. Do you have any comments on the imbalance pricing data provided for 2004 to 2006?

No.

Q3. Please outline the PAR value you believe is most appropriate and provide rationale?

As we have indicated with respect to P194, we do not support the concept of a PAR value. However, if a PAR value has to be set then, based on arguments outlined in section 3.1.2 of the P205 consultation report, we support a PAR value of 500MWh.

Q4. Do you have any comments on the draft legal text?

None at this time.

Q5. Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale

None.

Q6. Does P205 raise any issues that you believe have not been identified so far and that should be considered? Please give rationale

No.

Q7. Are there any further comments on P205 that you wish to make?

Nothing further at this time.

Regards

Garth Graham
Scottish and Southern Energy

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Respondent:	<i>Alastair Barnsley</i>
Company Name:	<i>E.ON UK Energy Services Limited</i>
No. of BSC Parties Represented	<i>0</i>
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	<i>1</i>
Non Parties represented	<i>E.ON UK Energy Services Limited</i>
Role of Respondent	<i>Party Agent</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes / No	E.ON UK Energy Services Limited wish to maintain a neutral stance on this proposal as it will have no impact on our activities or costs.
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?		E.ON UK Energy Services Limited wish to maintain a neutral stance on this proposal as it will have no impact on our activities or costs.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	Yes / No	E.ON UK Energy Services Limited wish to maintain a neutral stance on this proposal as it will have no impact on our activities or costs..

Q	Question	Response	Rationale
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	Yes / No	E.ON UK Energy Services Limited wish to maintain a neutral stance on this proposal as it will have no impact on our activities or costs.
7.	Are there any further comments on P205 that you wish to make?	No	

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Respondent:	Ben Sheehy
Company Name:	E.ON UK plc
No. of BSC Parties Represented	13.
Parties Represented	<i>Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).</i>
No. of Non BSC Parties Represented (e.g. Agents)	Citigen London Ltd., Cottam Development Centre Ltd., E.ON UK Ironbridge Ltd., E.ON UK plc, Economy Power plc, Enfield Energy Centre Ltd., Midlands Gas Ltd., Powergen Retail Ltd., TXU Europe (AH Online) Ltd., TXU Europe (AHG) Ltd., TXU Europe (AHGD) Ltd., TXU Europe (AHST) Ltd., Western Gas Ltd.
Non Parties represented	<i>Please list all non 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 / Distributors / other please state ¹)</i>
Does this response contain confidential information?	No.

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes / No	<p>P205 would allay some of the extreme Energy Imbalance Prices (<i>Prices</i>) that will result from the post-P194 baseline and so will better facilitate Objective (b). Under P205 Parties would be less likely to take cautiously long positions in order to avoid, potentially very punitive, System Buy Prices (<i>SBPs</i>). The incentive to go long, and the corresponding balancing actions required by the Transmission Company, would be reduced.</p> <p>It is widely regarded as impossible to verify whether an individual balancing action was solely either an energy or system balancing action. P205 would therefore better facilitate Objective (c) by lessening the impact of imperfections in the tagging mechanism on Prices – and so more appropriately target the costs of balancing the system onto Parties.</p>

¹ Delete as appropriate – please do not use knockout, this is to make it easier to analyse the responses

Q	Question	Response	Rationale
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	Yes / No	<p>“Incentive to balance” is an imprecise term and it is questionable as to whether there is greater merit to energy balancing from the higher of two extreme Prices. It is notable from the table “Imbalance Price Statistics (04/06)” that the extreme SBPs under both P194 and P205 would have been over £1,000 per MWh during 2005/6 – Prices far in excess of the level at which every Party will do their utmost to balance their position. We do not accept the argument that P205 would reduce the extent to which Parties trade ahead of Gate Closure, other than it would reduce the incentive for Parties to hold excessively long positions.</p> <p>What is clear is that P205 will partly alleviate those arbitrary Prices under P194 that are likely to cause harm to businesses (particularly smaller Parties) and the market without achieving any demonstrable increase in Parties’ incentive to balance. In short, the difference between £1,054 per MWh (highest 2005/6 SBP if PAR = 500 MWh) and £1,527 per MWh (highest 2005/6 SBP if PAR = 100 MWh) is a unwarranted threat to business rather than an increased incentive.</p>

Q	Question	Response	Rationale
3.	Please outline the PAR value you believe is most appropriate and provide rationale?		<p>We believe that the pre-P194 weighted average of the Net Imbalance Volume (<i>N/I</i>) sufficiently reflected the state of the system; and sent appropriate signals to the market. The highest SBP of 2005/6 was £602 per MWh.</p> <p>However as a PAR value will be implemented shortly, our view is that a PAR value of 500 MWh would be more appropriate than 100 MWh, as it would allay the most extreme Prices likely to be seen after the implementation of P194.</p> <p>Both values acknowledge that the marginal price is not necessarily the “right” price by avoiding the use of the single most expensive balancing action, which is the true reflection of what another unit of demand would cost to satisfy. Both values are instead derived from a weighted average because it is recognised that the marginal price may not be representative of the state of the system. In practice, both values therefore aim to strike a balance between reflecting the cost of the marginal energy balancing action and avoiding undue market volatility. As an arbitrary volume, 500 MWh would better achieve this balance than 100 MWh.</p>
4.	Do you have any comments on the draft legal text?	Yes / No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	Yes / No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	Yes / No	

Q	Question	Response	Rationale
7.	Are there any further comments on P205 that you wish to make?	Yes / No	Parties should be aware that the Proposal makes the assumption that significantly short NIVs equate to system stress. A short NIV simply means that Parties have not balanced their positions in the market pre-Gate Closure and that the difference must be balanced by the Transmission Company. It does not necessarily mean that there is limited generation to meet demand, which we would understand from the concept of system stress. Data presented by E.ON UK to Ofgem for the P194 Impact Assessment confirmed that, for all periods in 2005, there was no clear correlation between NIV and MELNGC, a measurement of spare capacity.

Parties are encouraged to provide financial information with regard 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 **15:00 on Wednesday 30 August 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P205 Urgent Modification Procedure 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 Tom Bowcutt on 0207380 4309, email address thomas.bowcutt@elexon.co.uk

P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties (“Parties”) and other interested parties are invited to respond to this consultation expressing their views or provide 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:	David Lewis
Company Name:	EDF Energy
No. of BSC 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; EDF Energy Customers Plc; Seaboard Energy Limited
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier/Generator/Trader/Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	<p>P205 will reduce the excessive length that is envisaged post-P194 implementation because SBP is likely to be less volatile under a PAR 500 methodology. Parties are therefore likely to be more balanced overall which will better facilitate Objective B.</p> <p>The Modification will better facilitate Objective C by reducing the impact of system actions on cash out prices and by increasing the prevalence of more than one corporate group setting the main price. The analysis contained in Appendix 3C of the consultation shows that the highest and lowest priced periods for SBP and SSP respectively in the 05/06 data would have been set by one corporate group under P194; under P205 this would not have been the case. We also note that Ofgem have in fact identified a potential situation where price manipulation could occur (see page 11 of the P194</p>

Q	Question	Response	Rationale
			<p>IA), so this issue may be more real than some people currently believe.</p> <p>In using a greater volume of “eligible” balancing actions to set the price, P205 will also mitigate the disproportionate effect that a PAR value of 100 MWh would have on smaller parties, as well as making the BSC more accessible to new entrants by reducing the volatility of cash out prices.</p> <p>As the Modification has a zero implementation cost it would be neutral to Objective D. We also note that the BSC states quite clearly in Section F that a Modification to amend another Modification awaiting implementation is perfectly reasonable, and that there is no “substantial evidence” test as noted by one Modification Group Member.</p>
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	Yes	<p>The data quite clearly shows, as the Proposer suggested, that imbalance prices were much more volatile over 05/06 compared to 04/05.</p> <p>The prices for 05/06 show that had P194 been in place over this period, the impact of what are likely to be system actions on SSP would have been much greater. P205 mitigates this effect, but the impact of system actions can still be seen.</p> <p>Under P194, the effect on SBP would not only be to raise prices when the system is tight, but also when the system is well supplied. Again, system actions will have a more pronounced effect on SBP under this pricing methodology. P205 will retain stronger signals when the system is under stress (as compared to the pre-P194 baseline) whilst not greatly affecting SBP at other times when the system is well supplied (unlike P194).</p>
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	500 MWh	<p>It is impossible to provide rationale for what is, in effect, an arbitrary number, although there would seem to be more justification for a value that provides a stronger incentive to balance than at present when the system is under stress whilst mitigating the impact of system related actions at all times. A greater volume of actions is also by definition more likely to contain a greater number of actions from different corporate</p>

Q	Question	Response	Rationale
			<p>groups thereby reducing any potential gaming issue that may arise out of more marginal pricing.</p> <p>Based on recent historical analysis, a PAR value of 500 MWh would seem to qualify all of the above.</p>
4.	Do you have any comments on the draft legal text?	No	
5.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p><i>Please give rationale</i></p>	No	
6.	<p>Does P205 raise any issues that you believe have not been identified so far and that should be consider?</p> <p><i>Please give rationale</i></p>	Yes	<p>Apart from looking at the impact of different PAR values on the 17th and 18th of July, the Elexon analysis has tended to focus on “peak demand periods” as opposed to periods where the market is actually under stress (i.e. periods where the difference between demand and available generation is much lower).</p> <p>Given that part of the rationale for P194 was to send appropriate signals “at times of energy shortage”, we believe that is imperative that this is considered as part of the assessment of P205.</p>
7.	Are there any further comments on P205 that you wish to make?	Yes	<p>It is quite clear that there are defects with the current imbalance pricing methodology that will have a much greater impact under a more marginal pricing regime, particularly that relating to system constraint actions feeding into energy imbalance prices. We believe that it is essential that this issue in particular is dealt with before even considering moving to sub-marginal cash out regime based on a low volume of actions (i.e. a small PAR volume) – P205 will provide this whilst allowing industry time to consider system tagging in more detail.</p> <p>In particular, it is quite clear that system related constraints on the Scottish interconnector have been feeding into cash out prices post-BETTA. These actions clearly deliver energy, but in reality highly priced negative Bids being accepted (out of cost order) from Scottish BMUs would appear to be</p>

Q	Question	Response	Rationale
			for system rather than energy reasons. We believe that it is inappropriate to even consider sub marginal pricing based on a low volume of actions until a more robust methodology for identifying and removing system trades is found.

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P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties (“Parties”) and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Kirsten Elliott-Smith</i>
Company Name:	<i>ConocoPhillips (U.K.) Limited</i>
No. of BSC Parties Represented	<i>2</i>
Parties Represented	<i>ConocoPhillips (U.K.) Limited, Immingham CHP LLP</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>0</i>
Non Parties represented	<i>0.</i>
Role of Respondent	<i>Generator/ Trader</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	There should be real benefits under objective (b) because P205 will limit the extent to which system actions pollute the energy imbalance price, and therefore mitigate the extent to which the wrong price signals are being provided to the market. P205 would also retain the strong incentives for parties to balance their position where it is possible for them to do so. In particular, based on the analysis made available to the modification group P205 maintains a strong imbalance signal aligned with the marginal cost of energy balancing at times of system stress, and participants will continue to contract ahead of Gate Closure to avoid imbalance exposure. As such, P205 will not increase the balancing requirements or costs of the Transmission Company or have an adverse impact on the efficient operation of the transmission system.

Q	Question	Response	Rationale
			<p>We do not consider that parties will be able to balance their positions any more accurately than they do at the present time and will not anyway be able to respond to the “pricing signals” provided by a PAR value of 100 MWh. This is because the P194 is not properly cost reflective and because the information provided in the price signal is only available after the event. On the contrary, <i>but only if a correct price signal were produced and fed through in a timely manner</i>, P205 should reduce the incentive for parties to take a long position to avoid SBP, possibly reducing the overall level of balancing required by the Transmission Company, benefiting the efficient operation of the transmission system.</p> <p>In terms of competition, small parties on both sides of the market are detrimentally affected, since there may not be products on the market which allow them to trade in small enough volumes to avoid imbalance. The proposed increase in the PAR volume would avoid penalising parties which cannot respond to imbalance prices. This would help to reduce a barrier to market entry and help to promote effective competition in the generation and supply of electricity under objective (c).</p>
			<p>as noted, P205 would decrease the impact of distortions in the tagging mechanism on imbalance prices. As such parties would be exposed to imbalance prices, which are more reflective of the true cost of energy balancing. This would more appropriately target the costs of balancing and, if so, should have a positive impact on promotion of effective competition in the generation and supply of electricity.</p>
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	Yes	Use of 2005-06 data has exposed a number of deficiencies with historic data from 2004-05 used in the assessment of P194. It is evident based on winter 2005-06 data that risks of pollution of the energy price are greater when the system is under stress, and that the impact of constraints on imbalance pricing is becoming a much more significant problem against a high gas price background.

Q	Question	Response	Rationale
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	500MW	<p>We would have preferred to retain the pre-P194 pricing, and certainly until problems with tagging had been rectified.</p> <p>That said, a PAR value of 500 MWh recognises the desire for increased pricing signals at times of system stress, but reduces the distortions inherent in moving to a PAR100 value. By doing so, P205 would promote competition, in avoiding detriments to parties with high levels of imbalance exposure.</p> <p>We agree with the proposer that a PAR value of 100 MWh puts too much emphasis on efficient operation of the Transmission System at the expense of promoting competition. The proposed move to a 500 MWh value would strike a more appropriate balance between these two objectives.</p>
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be considered? <i>Please give rationale</i>	Yes	Indicative imbalance pricing information is not available until after the trading period, so the assumption of price responsiveness is unachievable even if the price signals were accurate. This is an important issue that does not seem to have been taken into account by either the P194 or the P205 modification groups.
7.	Are there any further comments on P205 that you wish to make?	Yes	Implementation of P194 with a PAR value of 100MWh has introduced a number of significant risks that cannot be properly quantified because of possible behavioural changes. P205 does not remedy the problems inherent in moving to a more marginal price but it is a significant improvement against a P194 baseline. It seems sensible to start at a higher limit and revise at a later date if concerns are not founded rather than start low and risk causing hardship or worse to some players before raising the limit.

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P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties (“Parties”) and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Name</i>
Company Name:	<i>Gaz de France ESS</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>0</i>
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>Supplier/Generator</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	<p>We endeavour at all times to ensure we minimise our exposure to imbalance costs to the extent that our flexible and dynamic portfolio allows. In the light of prolonged and continuing lack of liquidity and therefore limited opportunity in times of system stress to rectify unexpected imbalances, combined with the uncertainty of outturn price in a market operating under a 100MWh PAR regime, we did not support the implementation of modification P194. We did not believe that P194 enhanced the then baseline BSC Objectives; we believed that there would be a detrimental impact on objective C – the promotion of effective competition, particularly for independent suppliers.</p> <p>We believe the approach proposed under this modification of a higher PAR value to be more appropriate in light of Ofgem’s declared preference towards more marginal pricing. This is due to the uncertainty around outturn price under a potentially harsher regime expected under a 100MWh</p>

Q	Question	Response	Rationale
			PAR combined with continued limitations on liquidity at times of system stress and continued uncertainty of security of supply for both gas and electricity during winter 2006/07. We also believe that this modification has a more acceptable and positive impact for competition than the current baseline including a 100MWh PAR and therefore enhances BSC Code Objective C.
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?		500MWh appears to be the most appropriate level considering the increased price volatility and real concerns around the potential for price setting by BM Units owned by the same corporate group should the value remain at 100MWh. Why let the risk remain unaddressed now that analytical evidence shows this to be a real possibility?
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	Yes	<p>This modification has been raised to address an anomaly introduced by a modification that was not supported by the majority of the industry, modification group membership or even the BSC Panel. The fact that there is much concern around specific parameters introduced under P194 is therefore of no great surprise.</p> <p>The industry has now had an opportunity to further assess the impacts of P194 and, as is evident with the raising of this modification, has now identified a serious potential flaw which requires redress as soon as possible ahead of what appears to be yet another 'challenging' winter.</p>

Q	Question	Response	Rationale
			Waiting to assess the impact of a 100MWh PAR value 6 months after implementation would only be acceptable if other issues such as the imperfections of the tagging methodology and lack of market liquidity had been successfully addressed.

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P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties (“Parties”) and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Dave Wilkerson</i>
Company Name:	<i>Centrica</i>
No. of BSC Parties Represented	<i>9</i>
Parties Represented	<i>Accord Energy Ltd; British Gas Trading Ltd; Centrica Barry Ltd; Centrica Brigg Ltd; Centrica KL Ltd; Centrica KPS Ltd; Centrica PB Ltd; Centrica RPS Ltd; Centrica SHB Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>–</i>
Non Parties represented	
Role of Respondent	<i>Supplier/Generator/ Trader</i>
Does this response contain confidential information?	<i>No</i>

Q1: Do you believe that Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s).

Yes

Centrica believes that the imminent introduction of P194 would be improved if the baseline of PAR100 were to be amended to PAR500. The decision to set the PAR volume at 100MWh was taken based on a set of data from 2004-2005. Since that time we have seen a very large increase in the volatility and range of imbalance prices - particularly in the winter 2005-2006 period, but also more recently during July 2006. It can therefore be seen that the current imbalance price methodology is already providing very strong signals for participants to balance, and a move to a PAR100 methodology would be unnecessarily penal.

We note that the P205 analysis has shown that PAR500 retains a sharper signal to balance during periods of system stress (when the Transmission Company may face most issues in terms of balancing the system), but not to the excessive extent that PAR100 would do.

It was acknowledged in the Ofgem decision letter for P194 that there would be an increased likelihood of system actions polluting the imbalance prices under a PAR100 methodology, and Centrica agrees that this is an issue. We are in agreement with the Modification Group that a move to a PAR value of 500 MWh

would reduce the likelihood of system balancing actions polluting the imbalance prices. However, given the lack of any current Modifications directly addressing the deficiencies in the tagging mechanisms and the fact that we are assessing PAR500 against the P194 baseline, we believe that it is important to introduce a solution that accepts that the system actions issues exist and attempts to address them.

There has been no analysis presented by National Grid during this process relating to how they believe participants would act differently under a post-P194/P205 regime, and it is therefore difficult to assess the impact on BSC Objectives (a) and (b). However, we believe that most participants are already doing their utmost to balance and therefore the change to a PAR100 (or PAR500) volume would only have the effect of penalising Parties unduly.

Assessing PAR500 against the P194 baseline, there would be reduction in the detrimental effects of P194 in terms of competition in the market, therefore Centrica believes that P205 would better facilitate BSC Objective (c). Smaller Parties and new entrants are necessary for a healthy wholesale market, and unduly penal imbalance charges will not encourage competition to be introduced or thrive.

We believe that P205 will have a neutral effect on BSC Objective (d).

Q2. Do you have any comments on the imbalance pricing data provided for 2004 to 2006?

No

The data shows exactly the impacts expected.

Q3. Please outline the PAR value you believe is most appropriate and provide rationale?

Centrica did not support the introduction of the P194 methodology. The PAR100 value was set as a roughly arbitrary figure, and so it is difficult to justify any other exact figure. However, as noted in Q1 above, we believe that PAR500 is an improvement on PAR100 as it reduces the penal element of P194 and also reduces the risk of system prices polluting the imbalance prices.

Q4. Do you have any comments on the draft legal text?

No

Q5. Do you believe there are any alternative solutions that the Modification Group has not identified and should be considered? Please give rationale.

No

Q6. Does P205 raise any issues that you believe have not been identified so far and that should be considered?

No

Q7. Are there any further comments on P205 that you wish to make?

No

Please send your responses by **15:00 on Wednesday 30 August 2006** to modification.consultations@exxon.co.uk and please entitle your email '**P205 Urgent Modification Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Jonathan Scott</i>
Company Name:	<i>Alcan Smelting and Power UK</i>
No. of BSC Parties Represented	<i>0</i>
Parties Represented	<i>n/a</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>1</i>
Non Parties represented	<i>Alcan Smelting and Power UK</i>
Role of Respondent	<i>Other – Licence Exempt Embedded Generator</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	<p>The implementation of P194 in November 2006 will have a negative impact on BSC Objective C (promoting effective competition) as the impact upon imbalance prices and as a result imbalance price risk will further increase the barriers to entry for new participants in the market. In addition, as has been identified by the proposer small participants in the market are less able to manage this risk so will be adversely effected by the more penal pricing environment.</p> <p>Implementation of P205 will address this negative impact on the promotion of competition and as such better facilitates Objective C.</p> <p>As there remains an incentive on parties to balance ahead of gate closure - particularly during periods where system margin is tight – there would be no detrimental impact on efficient and economic operation of the transmission system (BSC Objective B).</p>

Q	Question	Response	Rationale
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	500MWh	<p>A PAR value of 500MWh will have the effect of making imbalance prices marginal at times of system stress whilst ensuring the effect under more benign conditions is not disproportionate.</p> <p>Smaller participants in the market are less able to react to imbalance price signals due to either their market access or technology type, these parties will be negatively impacted by the effects of a lower PAR whilst being unable to mitigate this risk.</p>
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	Yes	As noted above the modification will better facilitate applicable BSC Objectives. However its benefits are more wide-reaching than the BSC alone, as the modification will reduce the impact of imbalance prices on smaller participants it will provide a more attractive pricing environment for small scale renewable, CHP and distributed generation, all of which are crucial to both security of supply and reducing the impact of climate change.

Parties are encouraged to provide financial information with regard 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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P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	<i>Martin Mate</i>
Company Name:	<i>British Energy</i>
No. of BSC Parties Represented	<i>5</i>
Parties Represented	<i>British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd, British Energy Direct Ltd, British Energy Generation (UK) Ltd</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>-</i>
Non Parties represented	<i>-</i>
Role of Respondent	<i>Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	<p>P205 would undermine the expected effect of P194 in better meeting BSC Objectives (b) and (c):</p> <ul style="list-style-type: none"> For objective (b) relating to efficiency of system operation, the benefit of P194 in incentivising participants to manage their own individual levels of balancing risk, rather than National Grid procuring it and the cost being shared, would be lost. Expected reductions in National Grid’s balancing costs would be lost. For BSC objective (c) relating to competition, the benefit of P194 in better reflecting the marginal cost of balancing energy onto those requiring the balancing energy, would be lost. With P205, the existing sharing of price risk via averaged prices would largely continue, with some participants effectively subsidising the balancing requirements of others, and efficient forward trading of bilateral energy and hedging products not being fully incentivised.

Q	Question	Response	Rationale
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	Yes	The increased impact P194 would have had on imbalance prices for 2005/06 compared with P2004/05, all else being the same, appears to be roughly in proportion to increases in wholesale energy/fuel prices.
3.	Please outline the PAR value you believe is most appropriate and provide rationale?		PAR=100 MWh represents a compromise between an average imbalance price and a theoretically ideal marginal value, and limits the effect of anomalous values which could occur due to the real non-ideal situation (see further comments below). We could support other values of PAR if evidence was available to demonstrate that the anomalous effects described below were significant (compared to the benefits) and a different value than 100 MWh would successfully mitigate them. However, on the evidence available, we are not convinced that PAR=500 MWh is suitable.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	Yes	A value for PAR which is greater than 100 MWh and less than 500 MWh, as suggested above, though at this time no convincing evidence is available to determine such a value with confidence.
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	

Q	Question	Response	Rationale
7.	Are there any further comments on P205 that you wish to make?	Yes	<p>As with P194, we view PAR as a parameter to moderate the potentially anomalous effects of:</p> <ul style="list-style-type: none"> (1) market power in the form of balancing actions where the System Operator has little or limited choice of provider (eg. for transmission constraints, for some 'system balancing' or when demand does not respond rationally to extreme imbalance prices) (2) Balancing actions included in BSAD data being incorrectly designated by the System Operator as either so-called 'Energy' or 'System' actions. <p>We also hope that P194 will encourage increased liquidity in balancing and hedging products, but if this does not materialise and products are not available to parties to manage increased incentives to balance, then the effectiveness of P194 will be called into question.</p>

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Any queries on the content of the consultation pro-forma should be addressed to Tom Bowcutt on 0207380 4309, email address thomas.bowcutt@elexon.co.uk

P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties (“Parties”) and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Rob Smith</i>
Company Name:	<i>National Grid</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	National Grid
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	Great Britain System Operator/Transmission Company
Does this response contain confidential information?	

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	We do not believe that P205 better facilitates BSC objective B. Rather we believe that it is a detrimental step in facilitating the applicable BSC objectives in comparison to the baseline that is set by BSC modification P194 and will reduce the incentives on parties to balance. P194 seeks to improve the methodology for the calculation of imbalance prices in that it allows these prices to more accurately reflect the marginal incurred cost of resolving NIV in all periods. We believe that imbalance prices should consistently reflect the marginal cost of imbalance in order for the forward markets to accurately reflect the marginal value of energy, and to ensure that there is a clear market signal for parties to balance.

			<p>Modification P205 clears at the average cost of resolving energy imbalance (NIV) in 80% of all periods whilst the forward market clears at close to the marginal cost of energy traded. Given the observed price spread of offer submissions, the System Operator is likely to take a quantity of acceptances to resolve energy imbalance in a short market at a price greater than SBP (under pre P194 methodology). Therefore if the cost of purchasing energy from the marginal unit in the forward market is greater than exposure to imbalance costs in the balancing mechanism a participant will forgo that opportunity and take the cheaper option of having its imbalance cashed out at SBP. In our view P205, in the majority of settlement periods, would effectively re introduce an inappropriate cap on the forward energy price equivalent to the expected level of the average imbalance price.</p> <p>Therefore, under P205, the incentives for participants to trade forward and balance ahead of Gate Closure would be diminished. The inability of imbalance prices to accurately reflect the value of energy in the forward markets would obscure market participants' ability to make informed trading decisions as to the opportunity cost of being in imbalance. This then would limit the ability to translate the marginal cost of energy into the forward curve. This would diminish the ability of the forward curve to aid future investment decisions in plant capacity. From this perspective modification P205 is does not better facilitate BSC objective B.</p> <p>The argument has been made that the P194 arrangements disadvantage a specific class of industry participant. Whilst recognising that issues surrounding different categories of market participants exist, we do not believe that it can be resolved by distorting the aim of the imbalance price methodology which impacts all parties. The issues raised in this modification relate to market structure and market liquidity as well as the philosophical argument as to whether it is should be necessary for participants to actively manage their energy positions or act in a</p>
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			<p>passive manner with the expectation that this will not see them disadvantaged. None of these arguments relate to whether it is appropriate that imbalance prices reflect the marginal cost of resolving NIV. In effect we believe that for a number of these issues P205 will actually be detrimental to the stated aims of these participants. This is especially true of market liquidity. Some parties have argued that there is a lack of liquidity which diminishes their ability to balance. P205 will effectively retain the pre P194 incentive to balance so will not enable the market to take advantage of the increased incentive, and consequential increase in liquidity, that P194 will provide. Therefore from this perspective P205 will be detrimental to BSC objective C.</p>
2.	<p>Do you have any comments on the imbalance pricing data provided for 2004 to 2006?</p>	<p>Yes</p>	<p>The proposer of modification P205 has made several assertions regarding the impact that P194 would have on the value of SSP and SBP in comparison to the values that would be derived under the current imbalance price methodology.</p> <p>The proposer has intimated that financial year 2005/6 would see the value of the wholesale price for variable renewable generators devalued by 10-15% if P194 had been implemented at that time. The precise methodology by which these values are derived is not established. However assuming that this is based on the premise that these parties will make no attempt to balance but simply spill onto the system with the intention of having this volume remunerated at SSP then we would query this assumption. Analysis carried out by Elexon would suggest that the average SSP for 2005/6 using the existing Methodology was £34.51MWh. The average SSP calculated under the P194 methodology for this period was £33.30MWh. This represents a 3.5% difference in average SSP prices. If the parties involved contracted a proportion of that output the change in the size of revenue would be further reduced.</p> <p>It should be noted that, notwithstanding a very small number of periods noted in</p>

			<p>the analysis, the average value of both SSP and SBP are very similar for P194 and the current methodology for financial year 2005/6.</p> <table border="1"> <thead> <tr> <th></th> <th>SBP</th> <th>SSP</th> <th>par500_buy</th> <th>par500_sell</th> <th>par100_buy</th> <th>par100_sell</th> </tr> </thead> <tbody> <tr> <td>Avg</td> <td>50.30</td> <td>34.51</td> <td>50.92</td> <td>34.35</td> <td>54.67</td> <td>33.30</td> </tr> </tbody> </table>		SBP	SSP	par500_buy	par500_sell	par100_buy	par100_sell	Avg	50.30	34.51	50.92	34.35	54.67	33.30
	SBP	SSP	par500_buy	par500_sell	par100_buy	par100_sell											
Avg	50.30	34.51	50.92	34.35	54.67	33.30											
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	100MWh	Please see response to question 1 and previous responses made in response to P194														
4.	Do you have any comments on the draft legal text?	No															
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No															
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No															
7.	Are there any further comments on P205 that you wish to make?	Yes	<p>We would like to highlight that in our view all the reasons we noted in our support of P194 are just as valid now as they when proposed. P194 ensured that parties would have a clearer incentive to balance. Hence, in our view the approval of P194 was both welcomed and appropriate.</p> <p>We would also like to make the following points</p> <ul style="list-style-type: none"> • P194 was approved in March 2006, following an extensive consultation process that included a Regulatory Impact Assessment,. Following this extremely thorough process, OFGEM has also given a commitment to 														

			<p>review how P194 is working in practice six months after its implementation which will give a further opportunity for review in the light of actual experience.</p> <ul style="list-style-type: none"> • Hence, we do not believe that it is appropriate for an Urgent modification that seeks to undo P194 to succeed prior to the thoroughly assessed P194 having been given the opportunity to work in practice, particularly given that P205 has raised no significant issues that were not already raised in P194. • We would also highlight specifically that when Modification P194 was submitted the proposer of that modification, in providing analysis to the working group, explicitly asked if parties would like to see the material impact of other PAR values. Extensive analysis of the imbalance price, as calculated using a PAR 500 methodology, was provided. Despite this evidence no respondent to the consultation advocated the proposal of PAR 500 as an alternative proposal. • We also have reservations that this modification is proposing a change to the BSC in regard to a rule change that has yet to be implemented. In effect this sets a precedent that, despite a ruling by the regulatory authority, any approved modification proposal with a sufficient implementation lead time can be challenged before it is even introduced.
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Any queries on the content of the consultation pro-forma should be addressed to Tom Bowcutt on 0207380 4309, email address thomas.bowcutt@elxon.co.uk

P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties (“Parties”) and other interested parties are invited to respond to this consultation expressing their views or provide 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:	<i>Alison Hughes</i>
Company Name:	<i>BizzEnergy</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>BizzEnergy</i>
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	<i>None</i>
Role of Respondent	<i>Supplier</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	With PAR at 100MWh smaller parties with potentially less predictable portfolios are exposed to significant risk. It is not possible practicable or reasonable for smaller players to access the full range of risk tools available to larger players. This increased risk coupled with the lack of available tools means that smaller parties are at a disproportionate competitive disadvantage. P201/P202 more directly addresses this problem. However with PAR at 500MWh there are still strong signals at times of stress (which was one of the reasons behind P194), yet at other times the risks are similar to the pre-P194.
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	No	
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	500	As the proposer suggests it would seem appropriate to start with a PAR of 500MWh rather than start at 100MWh and if necessary increase.
4.	Do you have any comments on the draft legal text?	No	

Q	Question	Response	Rationale
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	No	

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P205 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties (“Parties”) and other interested parties are invited to respond to this consultation expressing their views or provide 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 Dawson
Company Name:	Barclays Bank plc
No. of BSC Parties Represented	1
Parties Represented	Barclays Bank plc
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	NA
Role of Respondent	Trader
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P205 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	The Modification fails to better facilitate BSC objectives (b) “the efficient, economic and coordinated operation by the Transmission Company of the Transmission System”. This objective is met by ensuring that cash-out prices are an effective proxy for the marginal cost of electricity required to balance the system in each Settlement Period. If the Main Price correctly reflects the efficient opportunity cost of balancing the system (as it will do under P194), then market participants should be making an <u>efficient</u> trade off between the expected cost of imbalances (based on the probability of being out of balance and the likely price) versus the cost of buying additional electricity in the forward markets. This is not necessarily equivalent to an <i>absolute</i> incentive to be balanced. In the face of uncertain generation and demand, participants can reduce the risk of, say, being short by buying more than their central generation/load forecast (and vice versa to mitigate the risk of being long). Consequently, the arguments made in support of P205 on the grounds that it would “maintain an

Q	Question	Response	Rationale
			<p>incentive to balance at peak times”, that it “would retain sufficient incentives for Parties to balance their position where it is possible for them to do so” and that “P205 would reduce the incentive for Parties to take a long(er) position” are invalid since they beg the question of what an <i>efficient</i> balance position (or long/short position) actually should be and ignore the fact that parties <u>always</u> have a trade off between <i>ex ante</i> trades and the relative risk of being short/long <i>ex post</i>. The question of whether this is an efficient trade-off or not cannot be asserted or divined, but can only be assessed relative to the efficiency of the imbalance price signal. Consequently, an imbalance price which reflects the marginal cost of balancing the system – as under P194 – will result in efficient balancing decisions. In moving to a price that reflects the average, rather than the marginal, cost of balancing, P205 will therefore result in less efficient balancing decisions and significantly greater – and hence inefficient – balancing actions by the system operator.</p> <p>We also disagree with the assertion that P205 would decrease the impact of imperfections in the tagging mechanism. Specifically, it is not clear that greater averaging would indeed result in SBP/SSP becoming a better proxy for the marginal cost of balancing energy. The current tagging arrangements represent the best available current means of distinguishing between ‘system’ and ‘energy’ actions and hence P194 represents the best available current means for identifying the marginal cost of energy actions. Any perceived flaws in the tagging mechanism should therefore be addressed through modifications to the tagging rules rather than the imbalance cash-out calculations.</p> <p>P205 will also undermine the achievement of 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”. In failing to reflect the opportunity cost of balancing in cash-out prices P205 will lead to send a distorted signal to the</p>

Q	Question	Response	Rationale
			<p>spot and forward markets on the value of electricity which will ultimately distort operational, maintenance and investment decisions. In reflecting, the correct cost of balancing the system, P194 will also send the correct balancing signal to incumbents and new entrants alike. While diluting this signal might offer the prospect of further new entry (which would indeed be most welcome), this would not equate to “effective” competition since it would be achieved by an inherent cross-subsidy to those parties who were proportionally less able to manage their imbalance exposures. Put another way, the imbalance pricing arrangements should <u>never</u> be used to address differences in the competitive conditions faced by different market participants. (To do so would raise an unwelcome precedent in terms of whether we should tailor the cash-out price to a participant’s credit standing, corporate structure etc.)</p> <p>Finally, we think that the modification undermines the efficiency in the implementation and administration of the balancing and settlement arrangements contrary to Objective D. While Parties can clearly raise modifications to address defects at any stage, it seems wholly unnecessary to have to consider a modification that seeks to negate an approved modification (ie, P194) prior to its implementation without demonstrating a clear flaw or change in circumstances that render the original reasoning inappropriate.</p>

Q	Question	Response	Rationale
2.	Do you have any comments on the imbalance pricing data provided for 2004 to 2006?	Yes	<p>The data demonstrates that PAR = 500 MWh would equate to 90-100% of the NIV in over 80% of periods and hence broadly equate to the status quo. Rather than being a variant of P194, P205 should therefore be seen as an attempt to reverse the impact of P194 (and hence negate the net benefits accruing to the approval of P194). The data also clearly demonstrates that P205 would result in significant dilution of imbalance prices away from the efficient levels at all times (ie, not just at system peak) and, on average, to reduce SBP significantly (which will have knock on consequences for the efficiency of forward markets and investment).</p> <p>It is also notable that the modification has been justified on the grounds that the historical data is unlikely to reflect the true impact of PAR 100 MWh on smaller parties and non-signatories (many of whom are "spilling" to the system and receiving SSP) and that changes in prices since P194 was approved therefore justify its reappraisal. However, although P194 may result in a minor fall in the value of SSP (circa £2/MWh on average for 2006) relative to the current baseline (and to PAR=500 MWh), this is dwarfed by the increase of SSP over the last year (from £16/MWh to £27/MWh on average). If anything, therefore, the new evidence suggests a significant improvement in the net position of smaller players spilling to the system since P194 was approved and, consequently, does not provide any compelling evidence of an urgent need to reappraise the original decision.</p>

Q	Question	Response	Rationale
3.	Please outline the PAR value you believe is most appropriate and provide rationale?	<10 MWh	The justification for PAR of 100 MWh in terms of perceived risks of gaming and the impact of “anomalous” small trades, while somewhat understandable remains questionable. The Modification Groups for P194 and P205 have not been able to identify circumstances under which gaming would be predictably profitable and averaging – even over 100 MWh – will at times dilute the true marginal cost signal. Consequently, our preference would have been for cash-out prices to be based on the marginal action (as under P136/137) rather than the average of the last 100 MWh. Given the constraint of some form of PAR averaging therefore, a small value of PAR – less than 10 MWh – would provide the best proxy for the marginal balancing action.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? <i>Please give rationale</i>	No	
6.	Does P205 raise any issues that you believe have not been identified so far and that should be consider? <i>Please give rationale</i>	No	
7.	Are there any further comments on P205 that you wish to make?	No	

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