

Responses from P203 Report Phase Consultation

Consultation Issued 18 August 2006

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	International Power plc	P203_dMR_01	4	0
2.	RWE Trading GmbH	P203_dMR_02	11	0
3.	Good Energy	P203_dMR_03	1	0
4.	EDF Energy	P203_dMR_04	9	0
5.	National Grid	P203_dMR_05	1	0
6.	Uskmouth Power	P203_dMR_06	1	0
7.	BizzEnergy	P203_dMR_07	1	0
8.	Airtricity	P203_dMR_08	1	0
9.	E.ON UK plc	P203_dMR_09	13	0
10.	Alcan Smelting and Power UK	P203_dMR_10	0	1
11.	Scottish Power	P203_dMR_11	7	0
12.	ConocoPhillips (U.K.) Limited	P203_dMR_12	2	0
13.	British Energy	P203_dMR_13	5	0
14.	Teesside Power Limited	P203_dMR_14	2	0
15.	Scottish and Southern	P203_dMR_15	5	0
16.	E.ON UK Energy Services Metering	P203_dMR_16	0	1

P203 REPORT PHASE 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>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
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	No	<p>The CBA demonstrates that P198 better facilitates objective b as the reduction in losses (and generation cost savings of between £3m and £8m per year) will improve the efficient and economic operation of the system (objective b). The CBA notes that P203 delivers a further improvement in cost savings compared to P198.</p> <p>We note that all new large generation in the 2006 SYS (apart from wind generation) is locating in the south. Whilst zonal losses will provide a locational investment signal, TNUoS charges and the proximity to fuel sources are far larger factors in this decision. As noted in the Oxera CBA, whilst wind generators will in the main be exposed to a increased charge for transmissions losses, ROCs (and also wind strength) play a far bigger factor.</p> <p>However, the removal of the flat rate charge for losses will reduce the</p>

Q	Question	Response	Rationale
			cross subsidies that northern generators currently enjoy. Whilst this may not alone drive siting decisions, it will be a contributory factor. This will promote competition in the generation and supply of electricity (objective c) in operational timescales, ensuring more efficient despatch at BMU level.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	
4.	Are there any further comments on P203 that you wish to make?	No	

Please send your responses by **12 noon on Friday 1 September 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 REPORT PHASE CONSULTATION QUESTIONS

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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	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 agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	No	We believe that the proposed modification proposal will better meet the BSC objectives for the reasons set out in the original modification. In particular, that the proposal will result in more cost-reflective allocation of losses with benefits under Objective B, remove the current distortions that arise under the current arrangements, with benefits for competition under Objective C and remove discrimination with benefits under Objective A.

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

Q	Question	Response	Rationale
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	
4.	Are there any further comments on P203 that you wish to make?	No	

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P203 REPORT PHASE CONSULTATION QUESTIONS

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Respondent:	<i>Alice Waltham</i>
Company Name:	Good Energy Ltd
No. of BSC Parties Represented	1
Parties Represented	<i>Good Energy Ltd</i>
No. of Non BSC Parties Represented	0
Non Parties represented	0
Role of Respondent	<i>Supplier</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes	We do not believe the proposed modification would better facilitate the BSC objectives. We feel its effects are ambiguous and would be minimal compared to other locational and dispatch signals.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	Not considered
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	

Q	Question	Response	Rationale
4.	Are there any further comments on P203 that you wish to make?	Yes	We believe P203 will have a disproportionate impact on small suppliers as the costs associated with changing systems are proportionally greater. This is anti-competitive as small suppliers are also unlikely to receive any of the perceived benefits to this proposal as they have a smaller generation portfolio and are therefore unlikely to be able to vary their dispatch.

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Respondent:	David Scott
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; Seeboard Energy Limited
No. of Non BSC Parties Represented	0
Non Parties represented	
Role of Respondent	Supplier/Generator/ Trader/Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
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Q	Question	Response	Rationale
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.</p>	Yes	<p>We believe that Proposed Modification P203 should not be made. Our rationale for this is that:</p> <ol style="list-style-type: none"> 1. We have doubts as to the validity of the results as provided by Oxera, which, at best are merely an inaccurate representation of the market. 2. The locational signals provided by P203 would have a negligible effect on the siting of new generation capacity as TNUoS charges already provide these. 3. The Oxera analysis highlights the magnitude of the movement of monies between parties under a seasonal zonal losses scheme; we believe these negative distributional impacts create uncertainty over, as well as outweighing, the worth of any despatch benefits from implementing the scheme. 4. We believe that Proposed Modification P203 would have a disproportionate impact on certain classes of Parties, such as renewables, CHP and generators/suppliers with long term contracts. 5. The modification will add market-mechanism-complexity for new entrants and existing smaller players who have to understand our market.
	<p>Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.</p>	Yes	<p>We agree that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group</p>
	<p>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.</p>	Yes	<p>However, it may have been prudent for Elexon to factor in the possibility of any legal challenge that may arise from the Authority's decision, as all previous change proposals relating to zonal charging for losses, both in the Pool and under NETA, have been taken to court.</p>

Q	Question	Response	Rationale
	Are there any further comments on P203 that you wish to make?	Yes	In summary, we are not convinced by the arguments put forward by the proposer that P203 “will influence both short term plant despatch and long term business decisions”. The impact on short-term despatch is questionable and any benefit that may arise would only be short lived anyway as new plant comes on line in the South; long-term signals are already clearly being provided by other means, so it is doubtful that a zonal losses scheme will have any impact on these decisions.

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P203 REPORT PHASE CONSULTATION QUESTIONS

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Respondent:	<i>Andrew Truswell</i>
Company Name:	<i>National Grid</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>National Grid Electricity Transmission plc</i>
No. of Non BSC Parties Represented	<i>None</i>
Non Parties represented	<i>N/A</i>
Role of Respondent	<i>Transmission Company</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Neutral	We are neutral as to whether Proposed Modification P203 should be made. In theory, the introduction of a zonal transmission losses scheme will provide a market signal for generation and demand to locate closer to each other, thereby reducing the total amount of transmission losses and better facilitating the achievement of objective (b), the efficient, economic and co-ordinated operation of the GB transmission system. However, a zonal transmission losses scheme would be only one of many factors that would influence future investment decisions or short term dispatch, and it is therefore difficult to quantify the extent to which the operation of the transmission system would become more economic. Additionally, in order to obtain the overall reduction in losses, there would be a redistribution in the allocation of losses between parties which may hinder competition, and therefore fail to facilitate objective (c), the promotion of effective

Q	Question	Response	Rationale
			competition in the generation and supply of electricity. Finally, the introduction of a zonal transmission losses scheme would significantly increase the costs and complexity of the BSC arrangements, thereby potentially failing to facilitate objective (d), the promotion of efficiency in the implementation and administration in the balancing and settlement arrangements.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	We believe that the legal text delivers the solution agreed by the Modification Group.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	We agree with the Panel's provisional recommendation concerning the implementation date for P203.
4.	Are there any further comments on P203 that you wish to make?	No	

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Respondent:	Sam Murray
Company Name:	Uskmouth Power
No. of BSC Parties Represented	1
Parties Represented	Uskmouth Power
No. of Non BSC Parties Represented	
Non Parties represented	
Role of Respondent	Generator
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	No	The modification would better facilitate the relevant objectives, in the manner outline in the original modification. It also has the advantage over the P198 alternative that it would aim to correct economic signals in a timely manner.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	

Q	Question	Response	Rationale
4.	Are there any further comments on P203 that you wish to make?	No	

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Respondent:	<i>Faye Hankin</i>
Company Name:	<i>BizzEnergy Limited</i>
No. of BSC Parties Represented	<i>1</i>
Parties Represented	<i>BizzEnergy Limited</i>
No. of Non BSC Parties Represented (e.g. Agents)	<i>0</i>
Non Parties represented	<i>0</i>
Role of Respondent	<i>Supplier</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes	<p>We agree with the recommendation that the Proposed Modification should not be made.</p> <p>A sudden shift in the cost base of suppliers (whether justifiable or not) creates the impression that pricing signals in the market are not fixed. This not only undermines the confidence of potential entrants but also the confidence of consumers.</p> <p>The investment decisions that this sort of proposal seeks to influence are long term. If the perception is that costs are subject to change this not only undermines the effectiveness of the latest modification but also the effectiveness of existing cost messages as they are not seen as fixed.</p> <p>P203 seeks to remove the phasing element of Alternative Modification P198. We note that Oxera's CBA mentions that fact that 90% of potential CCGT is already planned to be in the south and considers that "any long term impacts of P198 were unlikely to be realised until beyond 2015".</p>

Q	Question	Response	Rationale
			If this is the case, and we believe it is, removing the phasing element has no immediate benefit yet amplifies the distortionary and anti-competitive elements of the Proposal by producing the “windfall” effects already discussed in our response to P198.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	No	As discussed in our response to P198, we would support a longer implementation timescale and longer notice periods to mitigate some of the de-stabilising and anti-competitive effects of this proposal.
4.	Are there any further comments on P203 that you wish to make?	Yes	<p>Parties will be disproportionately affected by this and the other associated proposals (P198/P200) according to whether they possess generation assets to act as a risk offsetting tool. Gains/losses on the generation side will be offset by gains/losses on the demand side. A party without generation does not have this opportunity.</p> <p>Parties with generation will be disproportionately affected according to the size, type and location of generation assets. A generator with assets in a wide variety of locations will experience offsetting gains and losses. A generator in the north will be penalised for previous investments decisions. Of particular concern are current and potential generators of renewable energy who will be disproportionately affected due to the relative inflexibility in the opportunities to site such plant.</p> <p>Suppliers will be disproportionately affected according to the size and nature of their customer portfolio and the nature of the contractual arrangements that they have in place. A supplier with a large domestic portfolio will be able to reflect the changes in their cost base with 28 days notice to the customer. A supplier with many of the largest customers supplied on a pass through basis will be able to pass on the charges immediately. A supplier such as BizzEnergy who supplies the smaller end of the I&C market on a fixed term basis would face the choice between</p>

Q	Question	Response	Rationale
			absorbing the extra costs (which could very easily result in supplying at a loss) or invoking Terms and Conditions clauses to re-price customers (a very commercially damaging route to go down).

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Respondent:	<i>Mr R C Longden</i>
Company Name:	<i>Airtricity</i>
No. of BSC Parties Represented	1
Parties Represented	<i>Airtricity</i>
No. of Non BSC Parties Represented	
Non Parties represented	
Role of Respondent	<i>Trading Party Interconnector User</i>
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes	The Proposed Modification would not better facilitate applicable objective (c), as it would act to reduce competition, through the discrimination introduced in its treatment of different parties. Proposed Modification P203 is similar to Alternative Modification P198, albeit with no phased implementation of seasonal TLF values. It has the same flaws as P198 and its Alternative. It adds significant complexity and cross subsidy into a proposed process which is fundamentally flawed. The increased complexity and resultant costs of P203 would be counter to applicable objective (d)
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	However, as the proposal should not be implemented, the drafting will not be necessary.

Q	Question	Response	Rationale
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	Comments above apply – proposal should not be implemented
4.	Are there any further comments on P203 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	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.
No. of Non BSC Parties Represented	0
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	Supplier/Generator/ Trader / Consolidator / Exemptable Generator
Does this response contain confidential information?	No.

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	No	The recommendation that the Proposal should not be made signals the rejection of a thoroughly assessed and workable method of removing the cross subsidies which uniform charging for transmission losses create. Furthermore, under P203 zonal TLFs would be calculated more accurately than under P198. The negative consequences of such cross subsidies, in terms of higher costs and inefficient generation and investment, have been recognised by the Ofgem in its responses to earlier transmission losses Modification Proposals.

Q	Question	Response	Rationale
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	---
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	The Lead Time was area of consensus that the Modification Group considered thoroughly.
4.	Are there any further comments on P203 that you wish to make?	No	---

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Respondent:	<i>Bob Nicholson</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	<i>1</i>
Non Parties represented	Alcan Smelting and Power UK
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 agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes / No	<p>Alcan supports the Panel's recommendation that Proposed Modification P203 should not be made. We do not believe that the modification would better facilitate the achievement of the BSC objectives:</p> <ul style="list-style-type: none"> ▪ Applicable BSC Objective (a) – The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence <p>Alcan's plants are embedded, licence-exempt generators that currently earn embedded benefits through avoiding transmission losses for suppliers purchasing any surplus generation. Alcan will be discriminated against, as the change from the current BSC baseline to the proposed modification hits northern embedded generators harder than any other participant. At present Alcan's sites earn an embedded benefit from suppliers, equivalent to the avoided costs of</p>

Q	Question	Response	Rationale
			<p>the supplier's share of uniform transmission losses. If the proposed modification were implemented, northern embedded generators would be charged by their off-taking suppliers for imposing a cost (as embedded generation would reduce the credit northern suppliers will receive under this proposal). Under this proposal Alcan's embedded generation will suddenly switch from being deemed an asset to the system to a liability. Alcan will therefore switch from receiving losses benefits to paying for locational losses – a double blow which means that the financial impact of this change on Alcan's generation is approximately twice that applicable to an equivalent northern transmission connected generator (who switches from paying for uniform losses to paying for zonal losses). We therefore believe that the proposed change unduly discriminates against northern embedded generators and as such is inconsistent with the terms of the Licence.</p> <p>[Continued overleaf]</p>
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made?</p> <p>Continued...</p>	<p>Yes / No</p>	<p>[Continued from previous page]</p> <ul style="list-style-type: none"> ▪ Applicable BSC Objective (b) – The efficient, economic and co-ordinated operation of the GB transmission system <p>Alcan cannot respond to the heightened economic signals provided by locational losses whilst maintaining the enhanced security of supply required by its smelters (that is the rationale for Alcan's ownership of power stations). We therefore do not believe that the anticipated efficiency improvements modelled by Oxera will materialise in practice.</p> <ul style="list-style-type: none"> ▪ Applicable BSC Objective (c) – Promoting effective competition in the generation and supply of electricity <p>We believe that the introduction of a zonal charging mechanism for</p>

Q	Question	Response	Rationale
			<p>transmission losses will lead to a substantial redistribution of wealth between parties for little or no economic benefit – leading to windfall gains and losses in the industry.</p> <p>Alcan located at its sites in North West Scotland in the early 20th Century and in North East England in the 1970s, long before electricity liberalisation and any notion of locational charging. Unlike portfolio generators investing in new plant and managing despatch from plants across the UK, Alcan's investment in aluminium smelters and associated power stations cannot be revised at the whim of short term pricing signals. Independent industrial generators are less able to respond to these signals than portfolio players and will be disadvantaged by locational signals.</p> <p>[Continued overleaf]</p>
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made?</p> <p>Continued...</p>	<p>Yes / No</p>	<p>[Continued from previous page]</p> <ul style="list-style-type: none"> ▪ Applicable BSC Objective (d) – Promoting efficiency in the implementation and administration of the balancing and settlement arrangements <p>We believe that the proposed modification would add cost and complexity to the balancing and settlement arrangements, both in the central systems but more specifically in each participants systems and would lead to an overall loss of efficiency.</p>
2.	<p>Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.</p>	<p>Yes / No</p>	<p>[No Comment]</p>
3.	<p>Do you agree with the Panel's provisional</p>	<p>Yes / No</p>	

Q	Question	Response	Rationale
	recommendation concerning the Implementation Date for P203? Please give rationale.		
4.	Are there any further comments on P203 that you wish to make?	Yes / No	<p>Alcan operates its own power stations purely to provide the high level of security of supply that its smelters require (and which cannot be provided from the public system). The operation of Alcan's power stations will be unaffected by the introduction of zonal losses, as our priority will continue to be security of supply. Therefore the introduction of zonal charging for losses is not a signal Alcan can respond to, and there will be no benefit to the system from imposing this cost on Alcan.</p> <p>A move to zonal charging for losses would increase Alcan's costs. However, unlike other parties within the UK power sector, Alcan cannot pass these costs through to its consumers. Alcan competes in the international aluminium market, a highly competitive global commodity market, where its cost base does not determine market prices</p> <p>The zonal charging of losses will also create greater uncertainty and make expansion of our UK smelting facilities difficult, in particular where further generation is required and less security is evident.</p>

Please send your responses by **12 noon on Friday 1 September 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 REPORT PHASE 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:	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	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
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes	<p>ScottishPower do not believe that a seasonal zonal transmission losses scheme as proposed in P203 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P203 would jeopardise the achievement of these Objectives.</p> <p>Objective (a) The proposed modification discriminates against certain parties while favouring others through the transfer of capital value and windfalls.</p> <p>Objective (b) This modification does not generate the sought after long term locational signal. It gives an inconsistent, contradictory and uncertain short term signal through despatching. The CBA analysis for P198 is based on a central despatch model, whereas NETA is based on a self despatch model. Therefore there is a questionable reduction in losses,</p>

Q	Question	Response	Rationale
			<p>and a potential loss of efficiency.</p> <p>Objective (c) This modification will create a windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which is a barrier for new entrants, and an increased implementation cost for existing parties – both bad for competition. This is detrimental to promoting effective competition.</p> <p>Objective (d) This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency.</p> <p>For these reasons, we agree with the Panel that P203 should not be made</p>
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
4.	Are there any further comments on P203 that you wish to make?	Yes	ScottishPower believe that P203 will have a detrimental impact on the applicable BSC Objectives, as detailed in our answer to question 1. It will increase the perceived regulatory risk associated with the electricity supply industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Any form of regulatory risk would effect future investment decisions.

Q	Question	Response	Rationale
			<p>There are environmental issues which should be considered, as well as the potential impact on consumers - Parties receiving windfall gains are unlikely to pass any savings onto customers. Parties who are windfall losers will have to pass price increases onto customers to cover costs. A risk would be that any future shortfall in Southern generation could lead to an increase in bid price as Northern generation recoup costs.</p> <p>Implementation of P203 will lead to increased costs for several classes of Parties, who have plant with environmental constraints, such as Windfarms, Nuclear stations, all types of Renewables or fossil (coal) plants who are unable to change their operational regime readily, and are located historically in the North of the country</p>

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P203 REPORT PHASE 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:	Kirsten Elliott-Smith
Company Name:	ConocoPhillips (U.K.) Limited
No. of BSC Parties Represented	2
Parties Represented	ConocoPhillips (U.K.) Limited; Immingham CHP LLP
No. of Non BSC Parties Represented	0
Non Parties represented	0
Role of Respondent	Generator/ Trader
Does this response contain confidential information?	<i>No</i>

Q	Question	Response	Rationale
1.	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.</p>	Yes	<p>ICHP strongly opposes P203, and believes it does not better facilitate achievement of the applicable BSC objectives. Full views were set out in response to the draft urgent modification report but key points are summarised below.</p> <p>The major disbenefit is against applicable objective (c), and is significantly negative, penalising existing investment decisions and causing a negative impact on competition. Looking forward, the change increases market complexity and risk, and we do not agree this risk is diversifiable. These detrimental effects can be expected to be greater under P203 than P198.</p> <p>Overall, and as with P198, P203 can be expected to have no more than a neutral effect on applicable objective (b) because the costs to the market and the increased complexity greatly offset the savings from redespach. Given Oxera's conclusions that longer-term locational signals could be ambiguous, we conclude that the proposal overall would have a negative effect against this objective.</p> <p>The change would significantly increase complexity under the BSC, requiring creation of a new agency role, and would be detrimental in terms of objective (d).</p>
2.	<p>Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.</p>	Yes	
3.	<p>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.</p>	Yes	

Q	Question	Response	Rationale
4.	Are there any further comments on P203 that you wish to make?	Yes	We would question the admissibility of this proposal given it is in effect an alternative to P198 original.

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P203 REPORT PHASE 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>Martin Mate</i>
Company Name:	British Energy
No. of BSC Parties Represented	5
Parties Represented	<i>British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, British Energy Direct Ltd, Eggborough Power Ltd, British Energy Generation (UK) Ltd</i>
No. of Non BSC Parties Represented	-
Non Parties represented	-
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 agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes	Under P203, the loss attributed to an individual BM Unit would be uncertain and beyond its control, being dependent on the behaviour of other BM Units. It would often exceed the loss which that BM Unit in isolation would cause. The method of derivation of TLFs for use in settlement would create significant but approximate positive and negative allocations of losses to individual BM Units which not only could be larger than the loss attributable to the BM Unit in isolation, but could be in completely the wrong direction for a particular location and time, due to the various approximations made. The proposal would create windfall winners and losers, who would be largely unable to manage the costs and risks created. The risk associated with existing and future long term locational investment would be increased. There is no indication that the introduction of P203 would significantly affect locational siting decisions to the national benefit, as losses are a relatively minor factor in such decisions. The reduction in the net value of losses under P198/203, as estimated by Cost Benefit Analysis, is due to short term despatch effects and is relatively small and uncertain compared to the value of losses and relative to the potentially inaccurate redistribution of losses between BM Units in different zones (see other comments below). Therefore BSC objective (c) relating to competition would not be better met, and this consideration far outweighs any potential benefit under BSC Objective (b) relating to efficient system operation.

Q	Question	Response	Rationale
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.		
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	1 April 2008 / 1 October 2008 should be achievable in the timescales indicated in the modification report, subject to the stated assumptions on the timing of an Ofgem decision and no appeal of that decision being considered. These dates conveniently correspond with renewal of many industry contracts.

Q	Question	Response	Rationale
4.	Are there any further comments on P203 that you wish to make?	Yes	<p>The method proposed in the P203 report contains many assumptions and approximations which cause uncertainty and error in the effect on individual BM Units when compared to the underlying principle on which it is based.</p> <p>The Oxera cost benefit analysis (CBA) also makes pragmatic assumptions and approximations which add uncertainty to the results and conclusions drawn.</p> <p>The CBA estimates an average annual value of saving in losses of about £16.7m, with standard deviation about £4m (CBA Seasonal Scenario, Table 3.20). The CBA also indicates an annual gross transfer of about £80m from northern generators to southern generators and about £72m from southern suppliers to northern suppliers (CBA Section 9.2.4, for 2006/07). The total gross transfer between BM Units of some £304m (-£152m for southern demand and northern generation and +£152m for northern demand and southern generation) exceeds the estimated total cost of losses of about £280m in 2006/07.</p> <p>We consider that the very modest and uncertain potential savings in the total cost of losses does not justify the relatively large gross transfer of value between investments in different zones. In most cases these gross transfers represent a windfall gain or loss for affected investments, and very little can be done to mitigate the effect. Given that approximations and assumptions in the method could cause the large transfers between BM Units to be completely wrong even compared to the underlying principle of the proposal, we consider that the P198 proposal or its alternative would harm the achievement of BSC Objective (c) relating to competition.</p> <p>The P198/203 methodology creates gross cash/energy flows from some parties to others. This seeks to imitate the flows which would be expected to occur in an idealised market situation where a party should be willing to pay another party for any benefit created by the action of the other party. However, in reality there is no losses market and no rights to losses allocations; the loss 'benefits' provided by some BM Units are largely a secondary consequence of other commercial decisions, and imposing such a scheme represents a regulatory charging regime with increased risk for participants.</p>

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Any queries on the content of the consultation pro-forma should be addressed to Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 REPORT PHASE 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>Dr Phil Lawless</i>
Company Name:	Teesside Power Limited
No. of BSC Parties Represented	2
Parties Represented	Teesside Power Limited, Teesside Energy Trading Limited
No. of Non BSC Parties Represented	0
Non Parties represented	
Role of Respondent	Generator
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes	We concur with the views of the majority of the Panel Members. We consider that the Proposed Modification, if implemented, would have an significant adverse impact on competition which would outweigh any small gains which arose from despatch efficiency.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	1 st April 2008 is the earliest date on which such a significant change to the industry trading arrangements could be introduced.

Q	Question	Response	Rationale
4.	Are there any further comments on P203 that you wish to make?	Yes	We have serious concerns regarding the reliability that can be placed on the Cost Benefit Analysis undertaken by Oxera. In particular, we consider that the use of an extremely limited number of transmission loss factors and the low gas price scenario, compared with current forward market prices, means that very little value can be placed on the results.

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Kathryn Coffin,
ELEXON Change Delivery,
ELEXON Ltd,
4th Floor,
350 Euston Road,
LONDON.
NW1 3AW

Telephone: 01738 457377
Facsimile: 01738 457944
E:mail: garth.graham@
scottish-southern.co.uk

Our Reference:

Your Reference:

Date : 1st September 2006

Dear Kathryn,

Consultation on Report Phase of P203 'Introduction of a Seasonal Zonal Transmission Losses Scheme'

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

We agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made. We do not believe that Proposed Modification P203 better facilitates the achievement of any of the Applicable BSC Objectives when compared with the current Code baseline. This is consistent with the initial view of the P203 Modification Group and the initial view of the BSC Panel.

The reasons and detail supporting this view are set out in our response to the P198 consultation. To avoid unnecessary repetition, we have chosen not to reiterate these arguments, but to instead make reference to these. For the avoidance of doubt, nothing that we say in this response should be construed, in any way, as lending support for P203.

We look forward to commenting on the Authority's Regulatory Impact Assessment in due course.

Yours sincerely,

Garth Graham
Scottish and Southern Energy

P203 REPORT PHASE CONSULTATION QUESTIONS

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

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 should not be made? Please give rationale.	Yes / No	E.ON UK Energy Services Limited wish to maintain a neutral position on this proposal as it has no direct impact on our activities or costs.
2.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	E.ON UK Energy Services Limited wish to maintain a neutral position on this proposal as it has no direct impact on our activities or costs.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes / No	E.ON UK Energy Services Limited wish to maintain a neutral position on this proposal as it has no direct impact on our activities or costs.

Q	Question	Response	Rationale
4.	Are there any further comments on P203 that you wish to make?	No	

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