

**Responses from P200 Report Phase Consultation**

**Consultation Issued 18 August 2006**

**Representations were received from the following parties**

<b>No</b>	<b>Company</b>	<b>File number</b>	<b>No BSC Parties Represented</b>	<b>No Non-Parties Represented</b>
1.	International Power plc	P200_dMR_01	4	0
2.	RWE Trading GmbH	P200_dMR_02	11	0
3.	Good Energy	P200_dMR_03	1	0
4.	National Grid	P200_dMR_04	1	0
5.	Uskmouth Power	P200_dMR_05	1	0
6.	BizzEnergy Limited	P200_dMR_06	1	0
7.	E.ON UK plc	P200_dMR_07	13	0
8.	Alcan Smelting and Power UK	P200_dMR_08	0	1
9.	Scottish Power	P200_dMR_09	7	0
10.	ConocoPhillips (U.K.) Limited	P200_dMR_10	2	0
11.	Teesside Power Limited	P200_dMR_11	2	0
12.	Scottish and Southern	P200_dMR_12	5	0
13.	E.ON UK Energy Services Metering	P200_dMR_13	0	1
14.	EDF Energy	P200_dMR_14	9	0

## P200 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.

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

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P200 <b>should not</b> be made? Please give rationale.	Yes	<p>P200 will allocate amounts for losses to generators when they are not generating, including when they are on outage. This may result in a cost to the generator or a payment depending on location. The mod does not therefore correctly allocate transmission losses to actual generation and does not facilitate the efficient and economic operation of the transmission system.</p> <p>Whilst the rules to identify Qualifying BM units are logical, P200 will exclude generator BM units where <math>QM &lt; 0</math> (i.e. pumped storage BM units). It seems discriminatory to exclude these BM units from the benefits of the transitional hedging scheme. The mod does not therefore promote competition in the generation and supply of electricity (objective c)</p>

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	No for the reasons stated in Q1
3.	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	
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	
5.	Are there any further comments on P200 that you wish to make?	No	

Please send your responses by **12 noon** on **Friday 1 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P200 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

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<b>Respondent:</b>	<i>Bill Reed</i>
<b>Company Name:</b>	RWE Trading GmbH
<b>No. of BSC Parties Represented</b>	11
<b>Parties Represented</b>	<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>
<b>No. of Non BSC Parties Represented</b>	None
<b>Non Parties represented</b>	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributor / other – please state <sup>1</sup>) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>
<b>Does this response contain confidential information?</b>	<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 P200 <b>should not</b> be made? Please give rationale.	Yes	We do not support the introduction of modification proposal P200. It introduces a significant delay to the delivery of a zonal losses scheme and a new cross subsidy associated with historic output of power stations. The modification will be detrimental to competition and impact on the economic and efficient operation of the transmission system (thereby not better meeting Objectives C and B). We also believe that the modification proposal is discriminatory since demand is excluded from the scheme (thereby not better meeting Objective A). Finally the scheme will be

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

Q	Question	Response	Rationale
			complex to establish and will have long term administrative consequences associated with monitoring f-factors and BMU/TU registration (thereby not better meeting Objective D).
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	While we believe that seasonal allocation of losses may be more cost reflective this is outweighed by the detrimental impacts of the proposal identified under question 1 above. Therefore we do not believe that the proposed modification should be made.
3.	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	
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	
5.	Are there any further comments on P200 that you wish to make?	No	

Please send your responses by **12 noon on Friday 1 September 2006** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P200 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

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## P200 REPORT PHASE CONSULTATION QUESTIONS

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<b>Respondent:</b>	<i>Alice Waltham</i>
<b>Company Name:</b>	Good Energy Ltd
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	<i>Good Energy Ltd</i>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	0
<b>Role of Respondent</b>	<i>Supplier</i>
<b>Does this response contain confidential information?</b>	<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 P200 <b>should not</b> 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 signals. In particular we feel that the use of F factors for certain classes of generator discriminates between parties.
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	We do not believe the alternative modification would better facilitate the BSC objectives. We feel its effects are ambiguous and would be minimal compared to other locational and dispatch signals. In particular we feel that the use of F factors for certain classes of generator discriminates between parties.

Q	Question	Response	Rationale
3.	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
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	
5.	Are there any further comments on P200 that you wish to make?	Yes	We believe P200 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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<b>Respondent:</b>	<i>Andrew Truswell</i>
<b>Company Name:</b>	<i>National Grid</i>
<b>No. of BSC Parties Represented</b>	<i>1</i>
<b>Parties Represented</b>	<i>National Grid Electricity Transmission plc</i>
<b>No. of Non BSC Parties Represented</b>	<i>None</i>
<b>Non Parties represented</b>	<i>N/A</i>
<b>Role of Respondent</b>	<i>Transmission Company</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P200 <b>should not</b> be made? Please give rationale.	Neutral	We are neutral as to whether Proposed Modification P200 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, the hedging aspect of P200 would apply only to existing generators (and not to demand or to new generators) and therefore could potentially be unduly discriminatory, which would be contrary to both objectives (a), the



Q	Question	Response	Rationale
			efficient discharge by the licensee of the its licence obligations, and (c), the promotion of effective competition in the generation and supply of electricity. Finally, the introduction of the scheme, and particularly the F-factors, 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 provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Neutral	We are neutral as to whether Alternative Modification P200 should be made. Alternative Modification P200 differs from Proposed Modification P200 in that it incorporates seasonal, rather than annual, Transmission Loss Factors (TLFs). The seasonal element of the Alternative Modification should in theory lead to more accurate short-term signals and therefore result in a greater reduction in losses, thereby better facilitating the achievement of objective (b), the efficient, economic and co-ordinated operation of the GB transmission system than Proposed Modification P200. However, any such improvement may not be material when compared to the overall changes resulting from such a scheme. We are therefore again neutral overall as to whether Alternative Modification P200 should be made, for the same reasons as for Proposed Modification P200 (see Question 1, above).
3.	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.
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	We agree with the Panel's provisional recommendation concerning the implementation date for P200.
5.	Are there any further comments on P200 that you wish to make?	No	

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<b>Respondent:</b>	Sam Murray
<b>Company Name:</b>	Uskmouth Power
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	Uskmouth Power
<b>No. of Non BSC Parties Represented</b>	
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	Generator
<b>Does this response contain confidential information?</b>	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 P200 <b>should not</b> be made? Please give rationale.	Yes	We do not believe it better facilitates the relevant objectives. It does not send clear messages to market about the costs associated with losses. It also seems discriminatory to put some existing plants into a different market framework to new plant or those registered in SVA.
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	The seasonality does nothing to enhance the market signals that losses should create. It is the overall loss factors that are needed. There may be potential benefits if they were more accurate, but we do not feel this is the case.
3.	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	

Q	Question	Response	Rationale
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	
5.	Are there any further comments on P200 that you wish to make?	No	

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<b>Respondent:</b>	<i>Faye Hankin</i>
<b>Company Name:</b>	<i>BizzEnergy Limited</i>
<b>No. of BSC Parties Represented</b>	<i>1</i>
<b>Parties Represented</b>	<i>BizzEnergy Limited</i>
<b>No. of Non BSC Parties Represented (e.g. Agents)</b>	<i>0</i>
<b>Non Parties represented</b>	<i>0</i>
<b>Role of Respondent</b>	<i>Supplier</i>
<b>Does this response contain confidential information?</b>	<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 P200 <b>should not</b> be made? Please give rationale.	Yes	<b>We agree with the recommendation that the Proposed Modification should not be made.</b> Although we are not in support of this proposal we are supportive of the rationale that existing generation plant output should be protected from the effects of zonal transmission loss charging as existing plant cannot respond to the pricing signals that are implied. However we firmly believe that any rationale that can be applied to generation BM Units could also be applied to consumption BM Units. Moreover, as demand is relatively inflexible in its response to cost signals, protection against distortionary "windfall" effects is even more important. We therefore find it inconsistent to make this Proposal without extending the same principal to the demand side.

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	<b>We agree with the recommendation that the Alternative Proposed Modification should not be made.</b> Although we are not in support of this modification, we note from the TLF Modelling Exercise that there is significant variation between seasonal and annual TLFs. This would suggest that any cost signals will be diluted if TLFs are averaged into an annual figure.
3.	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	
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? 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.
5.	Are there any further comments on P200 that you wish to make?	Yes	Whilst we are supportive of measures that seek to mitigate the de-stabilising and anti-competitive effect of zonal transmission loss charging for generators, we would suggest that measures to protect demand side BM Units are even more important. This is because of their relative inflexibility of response particularly in the short term.

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<b>Respondent:</b>	Ben Sheehy
<b>Company Name:</b>	E.ON UK plc
<b>No. of BSC Parties Represented</b>	13
<b>Parties Represented</b>	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.
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	Supplier/Generator/ Trader / Consolidator / Exemptable Generator
<b>Does this response contain confidential information?</b>	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 P200 <b>should not</b> be made? Please give rationale.	Yes	We agree that F-factor volumes would be discriminatory, in applying only to existing generators. We further agree that it would be contradictory to implement a version of a zonal transmission losses scheme that hedged its own effects. Finally, we note the clarification from BSCCo that the view of the Proposer had evolved throughout the assessment, so that they had ultimately not supported the Modification Proposal.
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	Regardless of the accuracy of zonal TLF calculations, we maintain that the application of F-factor volumes would be discriminatory, in applying only to existing generators.

Q	Question	Response	Rationale
3.	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	---
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	---
5.	Are there any further comments on P200 that you wish to make?	No	---

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<b>Respondent:</b>	<i>Bob Nicholson</i>
<b>Company Name:</b>	<i>Alcan Smelting and Power UK</i>
<b>No. of BSC Parties Represented</b>	<i>0</i>
<b>Parties Represented</b>	<i>n/a</i>
<b>No. of Non BSC Parties Represented</b>	<i>1</i>
<b>Non Parties represented</b>	<i>Alcan Smelting and Power UK</i>
<b>Role of Respondent</b>	<i>Other – Licence Exempt Embedded Generator</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
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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 P200 <b>should not</b> be made? Please give rationale.</p>	<p><b>Yes / No</b></p>	<p>Alcan supports the Panel's recommendation that Proposed Modification P200 should <b>not</b> 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"> <li>▪ <b>Applicable BSC Objective (a) – The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence</b></li> </ul> <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 the supplier's share of uniform transmission losses. If the proposed modification were implemented, northern embedded generators would be charged by their offtaking 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>

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 P200 <b>should not</b> be made?</p> <p>Continued...</p>	<p><b>Yes / No</b></p>	<p>[Continued from previous page]</p> <p>The Hedging scheme proposed applies only to Generator BM Units and not to Supplier BM Units. As such it discriminates against embedded generators, such as Alcan, that trade through SVA and are registered as part of a supplier BM Unit. Embedded generators trading in this way would be prevented from accessing the hedging scheme. We believe this to be undue discrimination that would be inconsistent with the terms of the Licence</p> <ul style="list-style-type: none"> <li>▪ <b>Applicable BSC Objective (b) – The efficient, economic and co-ordinated operation of the GB transmission system</b></li> </ul> <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> <p>[Continued overleaf]</p>

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 P200 <b>should not</b> be made?</p> <p>Continued...</p>	<p><b>Yes / No</b></p>	<p>[Continued from previous page]</p> <ul style="list-style-type: none"> <li data-bbox="1122 288 1906 352">▪ <b>Applicable BSC Objective (c) – Promoting effective competition in the generation and supply of electricity</b></li> </ul> <p>We believe that the introduction of a zonal charging mechanism for 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 20<sup>th</sup> 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> <ul style="list-style-type: none"> <li data-bbox="1122 975 1957 1082">▪ <b>Applicable BSC Objective (d) – Promoting efficiency in the implementation and administration of the balancing and settlement arrangements</b></li> </ul> <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>

Q	Question	Response	Rationale
2.	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.</p>	<p><b>Yes / No</b></p>	<p>Alcan supports the Panel's recommendation that Proposed Alternative Modification P200 should <b>not</b> 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"> <li>▪ <b>Applicable BSC Objective (a) – The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence</b></li> </ul> <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 the supplier's share of uniform transmission losses. If the proposed modification were implemented, northern embedded generators would be charged by their offtaking 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>

Q	Question	Response	Rationale
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made?</p> <p>Continued...</p>	<p><b>Yes / No</b></p>	<p>[Continued from previous page]</p> <p>The Hedging scheme proposed applies only to Generator BM Units and not to Supplier BM Units. As such it discriminates against embedded generators, such as Alcan, that trade through SVA and are registered as part of a supplier BM Unit. Embedded generators trading in this way would be prevented from accessing the hedging scheme. We believe this to be undue discrimination that would be inconsistent with the terms of the Licence</p> <ul style="list-style-type: none"> <li>▪ <b>Applicable BSC Objective (b) – The efficient, economic and co-ordinated operation of the GB transmission system</b></li> </ul> <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> <p>[Continued overleaf]</p>

Q	Question	Response	Rationale
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made?</p> <p>Continued...</p>	Yes / No	<p>[Continued from previous page]</p> <ul style="list-style-type: none"> <li>▪ <b>Applicable BSC Objective (c) – Promoting effective competition in the generation and supply of electricity</b></li> </ul> <p>We believe that the introduction of a zonal charging mechanism for 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 20<sup>th</sup> 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> <ul style="list-style-type: none"> <li>▪ <b>Applicable BSC Objective (d) – Promoting efficiency in the implementation and administration of the balancing and settlement arrangements</b></li> </ul> <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>
3.	<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 / No	[No comment]

Q	Question	Response	Rationale
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes / No	
5.	Are there any further comments on P200 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](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P200 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

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## P200 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.

<b>Respondent:</b>	Gary Henderson
<b>Company Name:</b>	SAIC Ltd. (for and on behalf of ScottishPower)
<b>No. of BSC Parties Represented</b>	7
<b>Parties Represented</b>	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	N/A
<b>Role of Respondent</b>	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
<b>Does this response contain confidential information?</b>	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 P200 <b>should not</b> be made? Please give rationale.	<b>Yes</b>	<p>While ScottishPower believe the introduction of P200 would retain the marginal incentives of P198 but giving certainty of investment signal and reduced risk for investment, we accept the Panel's recommendation and agree that the effect of introducing a zonal losses scheme creates windfall gains and losses, which discriminates against certain parties and benefits others; generates no long term locational signal and gives an inconsistent, contradictory and uncertain signal which would give rise to uncertainty and distort competition.</p> <p>The unanimous/overwhelming rejection of P198 and related transmission losses mods by the Panel has reduced the above said uncertainty with the current baseline. Therefore on balance, we accept that it would not better facilitate the achievement of the applicable BSC objectives when compared with the current Baseline.</p>

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	<b>Yes</b>	See comments to Question 1 above.
3.	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.	<b>Yes</b>	The legal texts appear appropriate.
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	<b>Yes</b>	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
5.	Are there any further comments on P200 that you wish to make?	<b>No</b>	

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## P200 REPORT PHASE CONSULTATION QUESTIONS

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

<b>Q</b>	<b>Question</b>	<b>Response</b>	<b>Rationale</b>
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P200 <b>should not</b> be made? Please give rationale.	Qualified yes	For reasons set out in our response to P198, we strongly oppose both P198 and the alternative. In a limited sense, however, we support the proposer of P200 original because we discern that there is strong pressure to introduce a locational losses scheme despite the weight of evidence that suggests significant competitive detriments from doing so, as well as adverse impacts on market entry.  On the assumption that such an arrangement is unavoidable, it should only be introduced in parallel with a mitigation scheme for existing generation. In this context P200 original is the least bad outcome of the various proposals current being reported on.

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	We consider the alternative to be worse than the original, primarily because it gives rise to more extensive windfalls through the use of seasonal loss factors.
3.	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	
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	
5.	Are there any further comments on P200 that you wish to make?	No	

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## P200 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.

<b>Respondent:</b>	<i>Dr Phil Lawless</i>
<b>Company Name:</b>	Teesside Power Limited
<b>No. of BSC Parties Represented</b>	2
<b>Parties Represented</b>	Teesside Power Limited, Teesside Energy Trading Limited
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	Generator
<b>Does this response contain confidential information?</b>	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 P200 <b>should not</b> be made? Please give rationale.	Yes	<p>We concur with the views of the majority of the Panel Members.</p> <p>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.</p> <p>We consider that P200 marginally better facilitates the achievement of the Applicable BSC Objectives (a), (b) and (c), compared with Modification Proposal P198. However, we consider that neither P198 nor P200 better promotes these objectives.</p>

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	The reasons are the same as those set out in the response to question 1 above
3.	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	
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	1 <sup>st</sup> April 2008 is the earliest date on which such a significant change to the industry trading arrangements could be introduced.

Q	Question	Response	Rationale
5.	Are there any further comments on P200 that you wish to make?	Yes	<p>We refer to paragraph 6.1.2 a) of the Draft Modification Report.</p> <p>We note that some members believed that the hedging scheme proposed in P200 would be discriminatory. We do not agree with this view. As the scheme will apply in a transparent manner to all existing generators it is not discriminatory from a legal perspective.</p> <p>We also note that some members stated that it would be contradictory to implement a scheme for losses which hedged its own effects. We are concerned that these members have not fully understood that the scheme only hedges the substantial transfers of wealth which would result from the introduction of a crude losses scheme. As far as the benefits claimed for the scheme by the proponents of P198, these would remain under P200: the advantage of P200 over P198 is that it mitigates to some extent the disadvantages identified as regards Applicable BSC Objective (c).</p> <p>Finally, we note that some members were concerned about the cost and complexity of the scheme. We note that the costs for implementing P200 are not substantially greater than P198, nor are the operational costs substantially higher. As regards complexity, the electricity industry is complex by its nature and we do not accept that the additional complexity associated with P200 is material.</p>

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Kathryn Coffin,  
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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 : 1<sup>st</sup> September 2006

Dear Kathryn,

**Consultation on Report Phase of P200 ‘Introduction of a Zonal Losses Scheme with  
Transitional 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.

In relation to the five questions contained within your note of 18<sup>th</sup> August 2006, and the associated Modification Report consultation for P200, we have the following comments to make. Our detailed position and concerns relating to a zonal losses scheme are given in our response to the P198 consultation.

**Q1 Do you agree with the Panel’s provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P200 should not be made? Please give rationale.**

Yes. We agree with the Panel’s provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P200 should not be made.

We do not believe that Proposed Modification P200 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 P200 Modification Group and the initial view of the BSC Panel.

However, if a zonal losses scheme is to be introduced, we believe that Proposed Modification P200 would better facilitate the achievement of the Applicable BSC Objectives compared to P198 (Proposed or Alternative) or P203. A transitional scheme would offer some consistency in the way in which significant alterations in market design are introduced. Ofgem, for example, adopted a transitional arrangement in applying the new ICRP methodology for transmission charges. Similarly, the Government took account of existing asset values of generation in its implementation of the EU ETS. On both occasions, these approaches were welcomed.



To introduce a zonal transmission losses scheme (e.g. P198 or P203) without a transitional scheme would, however, in our view, be significantly flawed. The detail supporting this concern is given in our response to the P198 consultation.

**Q2 Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 should not be made? Please give rationale.**

Yes. We agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 should not be made.

For the reasons given in our response to the P198 consultation, we do not believe that Alternative Modification P200 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline. If, however, a scheme for transmission losses, based on a zonal allocation, is to go ahead, then we believe P200 would provide a better approach than P198 (Proposed or Alternative) or P203. Our over-arching position, however, is that the best approach is to retain the current Code baseline.

**Q3 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.**

We agree with the Panel that the legal text provided in the draft Modification Report correctly delivers the solution agreed by the Modification Group with respect to the P200 Modification Proposal.

**Q4 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.**

Whilst we do not believe that either P200 Proposed or Alternative should be implemented, we support the implementation approach as described in the consultation document. It seems a pragmatic solution to implement P200 from 1<sup>st</sup> April 2008.

We believe that it would be both useful to the market and helpful to the TLM Agent if, once approved, the Agent was to undertake a 'dummy-run' in 2007 using real data for 2005-06 to produce 'real' annual TLM (rather than the 'snap-shots' so far available). This would also enable the Agent to iron out any problems before going live with the 2006-07 data in the autumn of 2007.

**Q5 Are there any further comments on P200 that you wish to make?**

Please refer to our response to the P198 consultation for a detailed view of our position.

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

Yours sincerely,

Garth Graham  
Scottish and Southern Energy

## P200 REPORT PHASE CONSULTATION QUESTIONS

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<b>Respondent:</b>	<i>Alastair Barnsley</i>
<b>Company Name:</b>	E.ON UK Energy Services Limited
<b>No. of BSC Parties Represented</b>	0
<b>Parties Represented</b>	
<b>No. of Non BSC Parties Represented</b>	1
<b>Non Parties represented</b>	<i>E.ON UK Energy Services Limited</i>
<b>Role of Respondent</b>	<i>Party Agent</i>
<b>Does this response contain confidential information?</b>	<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 P200 <b>should not</b> 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 provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> 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.

Q	Question	Response	Rationale
3.	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.
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? 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.
5.	Are there any further comments on P200 that you wish to make?	No	

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<b>Respondent:</b>	David Scott
<b>Company Name:</b>	EDF Energy
<b>No. of BSC Parties Represented</b>	9
<b>Parties Represented</b>	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
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	Supplier/Generator/ Trader/Distributor
<b>Does this response contain confidential information?</b>	<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 P200 <b>should not</b> be made? Please give rationale.	Yes	We agree with the panel's provisional recommendation to the Authority that Proposed Modification P200 <b>should not</b> be made. Our rationale: 1. We are not convinced that a zonal losses scheme will lead to more efficient despatch of plant at the margins. 2. We do not agree that a grandfathering scheme should be introduced as it is discriminatory, by excluding offtaking and new delivering units. 3. It is a very costly and complex scheme that would provide few, if any, benefits to the efficiency of the GB Transmission System. 4. The modification will add market-mechanism-complexity for new entrants and existing smaller players who have to understand our market.

Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 <b>should not</b> be made? Please give rationale.	Yes	As above
3.	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.	No	We do not agree that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group, as we are not certain that it effectively captures the aims of the proposed modification.
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	Yes	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.
5.	Are there any further comments on P200 that you wish to make?	Yes	We believe that the fixed F-factor values, calculated during a high gas price period, will result in inefficient despatch of plant on the transmission system. This will become more acute in future years.

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