

## Responses from P198 Report Phase Consultation

Consultation Issued 18 August 2008

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	International Power plc	P198_dMR_01	4	0
2.	RWE Trading GmbH	P198_dMR_02	11	0
3.	Good Energy Ltd	P198_dMR_03	1	0
4.	EDF Energy	P198_dMR_04	9	0
5.	National Grid	P198_dMR_05	1	0
6.	Highlands and Islands Enterprise	P198_dMR_06	0	1
7.	Uskmouth Power	P198_dMR_07	1	0
8.	BizzEnergy	P198_dMR_08	1	0
9.	E.ON UK plc	P198_dMR_09	13	0
10.	Alcan Smelting and Power UK	P198_dMR_10	0	1
11.	ConocoPhillips (U.K.) Limited	P198_dMR_11	2	0
12.	Scottish Power	P198_dMR_12	7	0
13.	British Energy	P198_dMR_13	5	0
14.	Teesside Power Limited	P198_dMR_14	2	0
15.	Scottish and Southern	P198_dMR_15	5	0
16.	E.ON UK Energy Services Limited	P198_dMR_16	0	1

## P198 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 P198 <b>should not</b> be made? Please give rationale.	No	IPR continues to support P198 for the reasons given in our response to the P198 Assessment consultation
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.	No	The CBA suggest that the benefits of zonal transmission losses are further enhanced with the application of seasonal zonal losses. We have some reservations over increasing the granularity of TLM changes, as this can impact on predictability of outcomes and introduce more volatility. However on balance we believe seasonal loss factors better facilitate the Applicable Objectives.
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 P198? Please give rationale.	Yes	
5.	Are there any further comments on P198 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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>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 P198 <b>should not</b> 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, 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.

<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
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.	No	We support the seasonal basis for allocating losses and believe that the alternative is better than the current base line. However, we also believe that Alternative Modification P198 will introduce a significant delay in achieving the benefits and do not support the alternative over the original modification proposal.
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 P198? Please give rationale.	Yes	
5.	Are there any further comments on P198 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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>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 P198 <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.
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <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.
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.

Q	Question	Response	Rationale
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? Please give rationale.	Yes	
5.	Are there any further comments on P198 that you wish to make?	Yes	We believe P198 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.

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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>	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>	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 P198 <b>should not</b> be made? Please give rationale.	Yes	<p>We believe that Proposed Modification P198 should not be made. Our rationale for this is that:</p> <ol style="list-style-type: none"> <li>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.</li> <li>2. The locational signals provided by P198 would have a negligible effect on the siting of new generation capacity as TNUoS charges already provide these.</li> <li>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</li> </ol>



Q	Question	Response	Rationale
			<p>scheme.</p> <p>4. We believe that Proposed Modification P198 would have a disproportionate impact on certain classes of Parties, such as renewables, CHP and generators/suppliers with long term contracts.</p> <p>5. The modification will add market-mechanism-complexity for new entrants and existing smaller players who have to understand our market.</p>
2.	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.</p>	Yes	<p>We believe that Alternative Modification P198 should not be made. Our rationale for this is similar to the above.</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	<p>We agree that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group</p>
4.	<p>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? 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>
5.	<p>Are there any further comments on P198 that you wish to make?</p>	Yes	<p>In summary, we are not convinced by the arguments put forward by the proposer that P198 "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.</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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>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 P198 <b>should not</b> be made? Please give rationale.	Neutral	We are neutral as to whether Proposed Modification P198 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 provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.	Neutral	We are neutral as to whether Alternative Modification P198 should be made. Alternative Modification P198 differs from Proposed Modification P198 in that it incorporates seasonal, rather than annual, Transmission Loss Factors (TLFs), and in its phased introduction over a period of 5 years. 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. However, offsetting this would be the phased introduction of the scheme which would delay the realisation of any benefits. It is therefore difficult to assess whether Alternative Modification P198 would better facilitate the achievement of objective (b), the efficient, economic and co-ordinated operation of the GB transmission system than Proposed Modification P198. We are therefore neutral as to whether Alternative Modification P198 would better facilitate the achievement of the Applicable BSC Objectives when compared to Proposed Modification P198, and, by extension, also when compared to the current Code baseline.
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 P198? Please give rationale.	Yes	We agree with the Panel's provisional recommendation concerning the implementation date for P198.
5.	Are there any further comments on P198 that you wish	No	

Q	Question	Response	Rationale
	to make?		

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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>	Elaine Hanton
<b>Company Name:</b>	Highlands and Islands Enterprise
<b>No. of BSC Parties Represented</b>	None Directly
<b>Parties Represented</b>	
<b>No. of Non BSC Parties Represented</b>	
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	HIE is concerned with sustainable economic development in the Scottish Highlands and supports the activities of a number of renewable energy companies and their suppliers. In terms of parties with a direct interface with the BSc, the majority of interests represented lie with generators, and in particular expemtable generators.
<b>Does this response contain confidential information?</b>	No

<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 P198 <b>should not</b> be made? Please give rationale.	Yes	We refer to our responses to previous P198 consultations. We agree with the Panel members' views that P198 will not result in despatch decisions and plant location decisions which produce an overall net benefit. We also agree with the view that it will give rise to disproportionate impacts on renewable generators.
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.	Yes	We refer to our responses to previous P198 consultations. We agree with the majority panel view that seasonal TLFs do not fully address the shortcomings of annual TLF's, including the perverse signals introduced through averaging.

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.	N/A	HIE has not had the resources to review the legal text.
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? Please give rationale.	Yes	HIE considers that the modification group members are well placed to determine the appropriate implementation date.
5.	Are there any further comments on P198 that you wish to make?	No	But we refer to our previous consultation responses.

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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk)

## P198 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>	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 P198 <b>should not</b> be made? Please give rationale.	No	We believe that the modification would better facilitate the relevant objectives as set out in the original modification proposal. It would remove market distortions and cross-subsidies, as well as sending investment signals to new build.
2.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.	No	We believe, that compared to the current baseline, the alternative modification does better facilitate the relevant objectives. However, we believe that the original modification would deliver the benefits in a more timely manner.
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 P198? Please give rationale.	Yes	
5.	Are there any further comments on P198 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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).



## P198 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>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 P198 <b>should not</b> be made? Please give rationale.	Yes	<p><b>We agree with the recommendation that the Proposed Modification should not be made.</b></p> <p>The defect identified in P198 will only be addressed where it is both practical and commercially viable for BM Units to respond. In turn the operation of the GB transmission system will only be affected insofar as BM Unit behaviour is modified. This will only occur if the effect of the Proposed Modification outweighs other locational factors in the siting of generation and demand. We do not believe that this will be the case. Furthermore we believe that it is only longer term decisions that are potentially affected.</p> <p>Due to limited ability of BM units to respond to the Proposed Modification, we believe that that the initial effect of this modification will be distortionary as windfall gains/losses will result.</p> <p>Unpredictable shifts in the cost base of the supplier and/or perceived</p>

Q	Question	Response	Rationale
			<p>instability has anti-competitive effects as it presents a barrier to the entry of new participants into the market.</p> <p><b>Conclusion</b></p> <p>Although we agree that inherent in the uniform allocation of transmission losses is an element of cross-subsidy, this cross-subsidy has a negligible effect as other locational factors far outweigh its influence. We are pleased to note that the Group supports this view.</p> <p>We also recognise that the achievement of Applicable BSC Objective (b) may be better facilitated by the Proposed Modification, although the magnitude of the potential efficiencies remains unproven. We remain concerned that the possibly marginal benefits under (b) would be by far outweighed by the disadvantage under the Applicable Objectives (d) and the even greater detrimental effect on achieving Applicable Objective (c). As a result we believe the overall effect would be detrimental.</p>
2.	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.</p>	Yes	<p><b>We agree with the recommendation that the Alternative Proposed Modification should not be made although we believe the detrimental effect of the Modification would be slightly reduced under the Alternative Modification.</b></p> <p>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. We therefore conclude that Applicable Objective (b) would be better facilitated by the Alternative Modification.</p> <p>Current plans for new plant development are primarily focused in the south of GB. The long term nature of such development plans means that potential increased efficiencies will not be realised in the short term. We note that the view has been expressed in the Group that any phasing of implementation will delay the realisation of these benefits. We disagree with this view as we believe any potential benefits will only be realised in the longer term (15 years+). Hence the effect of phasing will not be to delay benefits as it would happen over a 4 year timeframe.</p>

Q	Question	Response	Rationale
			<p><b>Conclusion</b></p> <p>The phasing element of the Alternative Modification would mitigate the “windfall” effect of the Modification Proposal to some extent.</p> <p>Similarly the anti-competitive aspects of the Proposed Modification described in Question 1 would be mitigated to some extent by the Alternative Modification. A phased introduction would have a lesser destabilising influence.</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?</p> <p>Please give rationale.</p>	Yes	
4.	<p>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198?</p> <p>Please give rationale.</p>	No	<p>The longer the implementation process is the less de-stabilising, anti-competitive effects it will have. It is also true that the longer the notice period for the publication of the TLFs the less the detrimental effect. It is often the case that customers are priced more than 3 months in advance of the supply start date and hence it would not always be possible to incorporate the impact of revised TLFs into new contracts. This problem is compounded where customers have contracts of several years in duration. Similarly the greater the degree of phasing of the de-stabilising modification, the less the impact will be.</p> <p>We would support a longer implementation timescale and longer notice periods for the revised TLFs together with a phased approach.</p>
5.	<p>Are there any further comments on P198 that you wish to make?</p>	Yes	<p>Each time a new measure is introduced into the industry consumer confidence is undermined. Regardless of the merits of the proposal, regularly shifting costs create the impression that current pricing signals are not fixed and constantly subject to change. The sorts of decisions that these price signals seek to influence are long term in their nature so consumers must feel confident in the long term price implications of their demand/investment policies. Making changes of marginal (if any) benefit is ultimately counter-productive as consumers cease to respond not only to the new price signals but the ones already in the market as they are seen as unreliable and subject to change.</p>

Q	Question	Response	Rationale
			<p>Oxera have estimated to magnitude of the cost signal in the Proposed Modification to be around one third of that provided by the current TNUoS charging mechanism. This has to raise the question as to whether existing cost signals are effective if there is a continuing mismatch between the location of generation and demand. If they are, then the defect that the Proposed Modification attempts to address would be considerably less pronounced. If they are not, then the Proposed Modification will be of negligible benefit. In either case it is hard to see how increasing the pricing signal by one third will be effective in redressing the mismatch of generation and demand.</p> <p>The environmental ramifications of this proposal are potentially far reaching due to the relatively limited scope for renewable generation plant to respond to these signals. We note that environmental considerations have been excluded from the cost benefit analysis and so we find it contradictory that environmental benefits from the increased efficiency of the transmission system are cited as a reason for implementation.</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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>	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 P198 <b>should not</b> 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. The negative consequences of such cross subsidies, in terms of higher costs and inefficient generation and investment, have been recognised by Ofgem in its responses to earlier transmission losses Modification Proposals.

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 P198 <b>should not</b> be made? Please give rationale.	No	Although the addition of linear phasing would delay the benefits of the removal of cross subsidies, the Alternative Modification represents a compromise solution for the industry, which could settle the contentious subject of charging for variable transmission losses for the long-term.
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 P198? Please give rationale.	Yes	The Lead Time was area of consensus that the Modification Group considered thoroughly.
5.	Are there any further comments on P198 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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>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>
----------	-----------------	-----------------	------------------

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 P198 <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 P198 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 P198 <b>should not</b> be made?</p> <p>Continued...</p>	<p>Yes / No</p>	<p>[Continued from previous page]</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> <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> <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 P198 <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>▪ <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 P198 <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 P198 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 P198 <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>▪ <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> <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> <p>[Continued overleaf]</p>
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft</p>	<p><b>Yes / No</b></p>	<p>[Continued from previous page]</p>

Q	Question	Response	Rationale
	<p>Modification Report that Alternative Modification P198 <b>should not</b> be made?</p> <p>Continued....</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
4.	<p>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? Please give rationale.</p>	<b>Yes / No</b>	
5.	<p>Are there any further comments on P198 that you wish to make?</p>	<b>Yes / No</b>	<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</p>

Q	Question	Response	Rationale
			expansion of our UK smelting facilities difficult, in particular where further generation is required and less security is evident.

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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

**P198 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>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>

1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P198 <b>should not</b> be made? Please give rationale.	Yes	<p>ICHP strongly opposes P198, and believes it does not better facilitate achievement of the applicable BSC objectives. Full views were set out in response to the second assessment consultation 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.</p> <p>Overall, P198 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 are probably comparable to the modest savings from redespach directly attributable to this change. 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.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.	Yes	The same comments made above apply no less strongly to the P198 alternative.
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 P198? Please give rationale.	Yes	
5.	Are there any further comments on P198 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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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
	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P198 <b>should not</b> be made? Please give rationale.	Yes	<p>ScottishPower do not believe that a zonal transmission losses scheme as proposed in P198 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P198 would jeopardise the achievement of these Objectives.</p> <p><b>Objective (a)</b> The proposed modification discriminates against certain parties while favouring others through the transfer of capital value and windfalls.</p> <p><b>Objective (b)</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 is based on a central despatch model, whereas NETA is based on a self despatch model.</p>

Q	Question	Response	Rationale
			<p>Therefore there is a questionable reduction in losses, and a potential loss of efficiency.</p> <p><b>Objective (c)</b> 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><b>Objective (d)</b> 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>
	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.</p>	Yes	<p>ScottishPower believe that, although the Proposed Alternative Modification P198 better facilitates BSC objectives (b) and (c) than Proposed Modification P198, it is not better than the current baseline for the same reasons as detailed in our answer to Q1.</p>
	<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>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? Please give rationale.</p>	Yes	<p>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</p>
	<p>Are there any further comments on P198 that you wish to make?</p>	Yes	<p>ScottishPower believe that P198 will have a detrimental impact on the applicable BSC Objectives, as detailed in our answer to question 1. It will</p>

Q	Question	Response	Rationale
			<p>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.</p> <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 P198 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>

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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).

## P198 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>Martin Mate</i>
<b>Company Name:</b>	British Energy
<b>No. of BSC Parties Represented</b>	5
<b>Parties Represented</b>	<i>British Energy Power &amp; Energy Trading Ltd, British Energy Generation Ltd, British Energy Direct Ltd, Eggborough Power Ltd, British Energy Generation (UK) Ltd</i>
<b>No. of Non BSC Parties Represented</b>	-
<b>Non Parties represented</b>	-
<b>Role of Respondent</b>	<i>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 P198 <b>should not</b> be made? Please give rationale.	Yes	Under P198, 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 P198 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, 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 provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <b>should not</b> be made? Please give rationale.	Yes	<p>By introducing P198 gradually:</p> <p>(a) the defects with the proposed solution identified above would be delayed and</p> <p>(b) the effect on existing BM Units and their financing and contractual arrangements under the existing shared losses regime would be delayed,</p> <p>thus reducing the harmful impact.</p> <p>In principle, determination of seasonal average values of TLF rather than annual would increase the accuracy of loss allocation. However, the values would still be gross approximations and would still create significant winners and losers amongst existing investments and unmanageable risk for new investments in the long term.</p> <p>Although P198 alternative is better than the original, the refinement of better reflecting seasonal variation in losses allocation does not outweigh the disadvantages of the method as a whole, once the early stages of phasing in have passed. As for the proposed modification, BSC Objective (c) would not be better met.</p>
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.		
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? 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
5.	Are there any further comments on P198 that you wish to make?	Yes	<p>The method proposed in the P198 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 £5.4m, with standard deviation about £4m (CBA Central Scenario, Table 3.17). This becomes £16.7m with s.d. about £4m for the seasonal alternative, disregarding the phasing feature. The CBA also indicates an annual gross transfer of about £85m from northern generators to southern generators and about £80m from southern suppliers to northern suppliers (CBA Section 9.2.1, for 2006/07). The total gross transfer between BM Units of some £330m (-£165m for southern demand and northern generation and +£165m 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 market for losses 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>

Please send your responses by **12 noon on Friday 1 September 2006** to [modification.consultations@exon.co.uk](mailto:modification.consultations@exon.co.uk) and please entitle your email '**P198 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@exon.co.uk](mailto:kathryn.coffin@exon.co.uk).

## P198 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 P198 <b>should not</b> 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 provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 <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	



Q	Question	Response	Rationale
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? 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.
5.	Are there any further comments on P198 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.

Please send your responses by **12 noon on Friday 1 September 2006** to [modification.consultations@exxon.co.uk](mailto:modification.consultations@exxon.co.uk) and please entitle your email '**P198 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@exxon.co.uk](mailto:kathryn.coffin@exxon.co.uk).

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 : 1<sup>st</sup> September 2006

Dear Kathryn,

### **Consultation on Report Phase of P198 ‘Introduction of a Zonal 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.

**Question 1. Do you agree with the Panel’s provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P198 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 P198 should not be made.

We do not believe that Proposed Modification P198 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 P198 Modification Group and the initial view of the BSC Panel.

Many of the aspects of the proposals on zonal losses have been considered through the long history of this subject and its discussion in the context of its application in E&W. However, the extension of the proposals to GB has raised a number of new issues and highlighted flaws in the proposals that result in it failing to meet the relevant objectives. These are discussed below.

## **Methodology and Modelling is Flawed - the Proposal Provides No Signal**

### **Inconsistency of locational signal**

The central tenet of the proposed scheme is that it should provide locational signals to participants to which they can respond. However, the methodology and modelling have failed to provide this fundamental requirement across all zones. In particular, considering the Northern Scotland zone, figure 3 (pg 11) of the Siemens PTI report clearly shows that the intended signal from the introduction of P198 not only varies between seasons, but also within seasons and, indeed in some cases, within month. This finding is repeated throughout the Siemens PTI report and is reflected in the Oxera report.

At certain times of the year, the signal is to positively locate a power station in Northern Scotland, whereas at other times the signal is directly opposite. It is, therefore, difficult to see how either a generator or customer can make any locational decision based upon such an inconsistent signal. It cannot, on any reasonable interpretation, be said to be a locational signal, therefore it fails the whole purpose of the modification. It therefore cannot be said to meet any of the required Objectives.

### **The Locational Signal is a Mirage**

The scheme is based on TLFs being calculated for each zone on an annual basis. However, this means that if a new generation plant responds to the economic signal, and locates in a zone, say in the South, then the following year when that zonal TLF is re-calculated, the economic signal would change and the incentive that instigated the change would reduce or disappear because the new plant had located there. It is, therefore, a very uncertain and unreliable signal. A party looking to build, for example, a power station in the South, would be unable to ‘bank’ on the perceived benefit of its locational decision, as that benefit would start to disappear as soon as the station was actually commissioned.

Again this points to the fact that the proposal fails to meet a fundamental requirement that there is a consistent signal that can be reacted to.

### **Aggregation of zones**

The methodology aggregates nodal TLFs (i.e. a loss factor for each point of connection of plant to the system) together within GSP Groups (the old electricity Board areas) without consideration of their relative values. This means that the average zonal TLF, particularly in the North of Scotland zone, is created from a large spread of nodal TLFs. Rather than providing a cost reflective zonal loss factor to the plant, reflective of the plant’s impact on the system, the average loss factor applied may bear little resemblance to a particular plant’s nodal loss factor and impact on the system. Indeed, its nodal loss factor could be closer to the average loss factor of an adjacent GSP Group. This averaging effect removes any chance of the signals being cost reflective of a plant’s impact on the system and so is again a major flaw in the methodology, particularly in relation to the North of Scotland zone.

### **Modelling and Analysis Casts Doubt on the Claimed Benefits**

The lack of a signal that is consistent and can be reacted to can be traced to the modelling and analysis (sometimes contradictory) carried out by Siemens PTI and Oxera and puts in doubt the benefits claimed for the implementation of the proposal.

Whilst Siemens PTI have examined 623 half-hourly periods in a year (3.5% of the yearly total), Oxera’s analysis relies upon just 12 periods (or 0.068% of the yearly total). As a result, as shown in Figure 2.3 (pg 9) of the Oxera report, comparison of the adjusted seasonal zonal Transmission Loss Factors (TLFs) with those of the Siemens PTI shows significant variations, which in some cases are diametrically opposite. For example, in Northern Scotland, the “Summer” graph shows Siemens PTI indicating a ‘positive’ TLF whilst Oxera indicates a large ‘negative’ TLF. Equally, in “Spring”, whilst both Siemens PTI and Oxera show a ‘negative’ TLF, the Oxera figure is circa one third larger. Similarly, in “Autumn”, there is a significant difference between the Siemens PTI and Oxera data. As a consequence, there is a major difference between the modelling results of Siemens PTI and Oxera (particularly in the Scottish Zones) and this applies across all four seasons of the year.

In our view, such significant differences, coupled with the extremely small sample set used by Oxera means that the Oxera analysis is flawed. The benefits of zonal losses claimed by Oxera of between £3.5m - £9.9m are therefore unlikely to arise.

### **Disproportionate and Discriminatory Treatment of Scottish Generation**

The transmission networks in Scotland and E&W are different (reflecting an accident of history rather than any particular policy intent). In E&W, only the higher voltage circuits at 400kV and 275kV are considered transmission, whereas in Scotland transmission also includes the lower voltage of 132kV. The effect of this for the proposal is that including Scottish 132kV circuits within the methodology

and modelling exacerbates the impact of the North/South losses differential and financial flows to the detriment of Northern generation and Southern consumption.

This is explained by the fact that losses on the 132kV network are higher. According to the NGET 2005-06 DC load flow model of losses on the different circuits the 132kV losses are of the order of 2.6% per 100km on average compared to around 0.7% for transmission losses on the higher voltage of 275kV and 400kV. We therefore believe that P198 will have a disproportionate and discriminatory impact on generation connected at 132kV in Scotland compared to identical (and competing) generation connected at 132kV in England or Wales.

The methodology and modelling is therefore flawed, since it does not treat generation connected to the 132kV networks in Scotland and E&W equitably. Moreover, the inclusion of 132kV in the methodology distorts the loss factor that would apply to generation connected at 275kV or above in the North of Scotland.

### **Inequitable Treatment of Participants**

The methodology of P198 scheme does not equitably attribute transmission losses amongst all the parties that cause them and is therefore discriminatory. In particular, the proposal does not include National Grid among the parties to whom the scheme applies even though it is recognised (including by Ofgem) that National Grid can take steps to reduce transmission losses. For example, generation that is dispatched on load by National Grid in the North to manage the system problems will adversely impact the losses, and hence all generation in that zone in subsequent years. The fact that National Grid can have an effect on zonal losses, but will be immune to that effect shows that the methodology has not been properly developed.

### **Perverse Signals for Energy Use**

A further anomaly associated with the methodology of P198 is that it creates zonal loss factors which are negative, for demand in the North and for generation in the South. Negative loss factors, when applied to customer demand will encourage increased energy use. It should be noted that such a perverse signal was removed from NGET's TNUoS Charging methodology. Again, this points to the methodology not being properly developed.

## **There is no need for Zonal Losses**

### **There is No Defect**

Apart from the fact that the methodology and modelling when applied across GB is flawed, even if it produced an appropriate signal, we believe that there is no need for such a scheme. We do not believe that a defect as suggested by the proposal exists. A significant quantity of new thermal generation is expected to come on-stream during the next decade. In response to existing pricing signals and completely independent of P198, the vast majority of this will be located in the Southern half of GB. This is a strong indication that the appropriate locational signals already exist and that the benefits that have been linked to P198 are not P198-dependent. There is therefore no existing defect nor a need to implement zonal losses.

### **Existing Locational Drivers are Sufficient**

There are many reasons why generation has been sited where it has. Locational decisions have, to a large degree, been related to access to fuel (which is the major on-going operating cost for all thermal power stations and a pre-requisite for renewable generation) and large quantities of cooling water (required for nuclear and thermal generation).

In addition, the location and operation of all large power stations in GB has been explicitly agreed/approved by central Government. All large power stations require explicit planning approval before they can be built. This approval is given by the Department of Trade and Industry (DTI) (in England and Wales) or the Scottish Executive (in Scotland) via a Section 36 consent (which is, in

effect, planning permission). In addition, the DTI issues all thermal plants with a Section 14 approval.

It is notable that even NGET recognised in their Seven Year Statement (2003) that "it can be very difficult, particularly for Large Power Stations, to obtain sites close to demand centres for environmental and other reasons. Similarly, renewable energy generation technologies such as wind or wave are unlikely to be located near demand centres".

It is also extremely unlikely that Peterhead power station in Northern Scotland with its access to fuel sources (its gas source signalled through the anticipated low charges from the review being carried out by Ofgem), its network access, and its local network services, would physically move to Petersfield in Southern England. Equally, a large industrial user of electricity could not relocate from Southern England to Northern Scotland.

We believe that these other factors have and will influence power station location to a far greater extent than this zonal losses proposal.

### **Existing Locational Signal Provided by TNUoS**

The costs signals for securing access to the electricity transmission network for both generation and demand is currently provided by National Grid through their Transmission Network Use of System (TNUoS) Charging Methodology. This methodology relies on estimating the cost of network reinforcement required for incremental increases in generation or demand. The methodology results in prices for access varying across the country. For example for generation it signals that it is more expensive in the North and cheaper to locate in the South. This methodology thereby currently provides a long-term economic signal for locating plant.

We believe that the introduction of zonal losses would conflict with the existing pricing signals in the transmission pricing methodology. In our view, exposure to both zonal losses and TNUoS would result in an inefficient mechanism, which would overstate the cost of plant locational decisions. This 'double' locational signal would, if P198 was approved, require revisiting of the existing TNUoS charging methodology.

Based on current levels of TNUoS charging, a 1,500 MW power station in Northern Scotland would pay around £30m per annum for its network access (TNUoS). P198 would impose an additional cost of around £10m per annum (based upon the Siemens PTI modelling), a 33% increase in the station's locational costs. This would take its total locational **payment** to nearly £40m per annum.

In contrast, a similarly sized power station in southern England would receive a TNUoS credit of £9m and be credited a further £4m through P198 (again based upon Siemens PTI modelling). This Southerly-located station would, therefore, **receive** a locational payment of £13m per annum.

If TNUoS charges are meant to represent a cost reflective locational signal, the addition of another significant locational cost cannot be considered cost-reflective and is instead disproportionate and punitive. We believe that if approved, the TNUoS Charging Methodology would need to be revisited. The locational signal is already provided by TNUoS, there is therefore no need to implement this zonal losses proposal.

### **Generation Needed for Network Security**

Even if it were possible to close and relocate generation in the North to the South, the closure of these stations would not deliver an efficient and effective electrical system. Network security is dependent upon generation being located throughout the network. Practical examples of this have recently been seen where National Grid have had to locationally constrain generation on load to support the network, particularly in the North of Scotland.

In addition, security of supply could become an issue for consumers in Northern GB generally, and perhaps acutely in Scotland, if generation is forced to close and consumers have to rely on increased imports. It should be noted that the Interconnector circuits could not support imports into Scotland should significant levels of generation in Scotland close down. The potential impact on customers would become even more acute in adverse weather conditions. We therefore consider that the proposal has not fully taken account of the practical effect on wider system security of short-term locational decisions in regard of, for example, premature closure due to a high locational penalty.

The network needs generation spread across it. As a consequence, the application of zonal losses will not result in a re-organisation of plant to a central location. Instead, the P198 proposal will merely redistribute value between existing generators, producing windfall gains and losses with, for example, power station asset valuations either increasing or decreasing depending upon where they have historically been located. The same is true for consumers who will find their cost of electricity either increasing (in the South) or decreasing depending upon where they have historically been located. No action will need to be taken by any party/consumer to receive this windfall gain or loss.

This proposal will not result in generation relocating (though may lead to premature closure of existing assets), therefore there is no need to implement this zonal losses proposal.

## **Financial Impact and effect on Market**

### **Impact of P198 is significant**

The proposed zonal losses scheme will have a significant economic impact on generation plant. Oxera's work identifies an overall re-distributional transfer of £158m (£73m through demand, £85m through generation). For an individual generator in the North, this equates to an incremental annual cost of many millions.

There is, therefore, a risk that such large swings in value could force exiting plant located in the North to close or mothball capacity earlier than is efficient. This would have a negative impact on plant margins and system security at a time when the industry is facing significant challenges in terms of building substantial new capacity.

As noted above, there is a need for generation to be distributed throughout the network. The supposed benefits of the zonal losses scheme have been estimated, but the costs of losing such distributed generation, e.g. the provision of network support services and maintaining import levels into Scotland at manageable levels, have not been taken into account. This makes the claimed benefits of the zonal losses scheme erroneous and invalidates the overall proposal.

### **Regulatory risk**

Approval of P198 would significantly increase the regulatory risk associated with new generation build in GB. This would impose a premium on the cost of capital for both new and existing generation.

This arises because the implementation of zonal losses will produce significant winners and losers. Anything as profound as applying a zonal losses scheme, which, according to section 9.1.3 (pg 68) of the Oxera report will see a transfer of £85 M from northern GB generation to southern GB generation will significantly increase the perception, amongst those wishing to invest in new generation, about the regulatory risk as well as having a negative impact on the cost of capital for existing and new generation and adversely affecting the competitive market.

The operators of such plant could not realistically have expected value shifts of this magnitude and, as a consequence, perceptions of regulatory risk for the sector will, all other things being equal, increase.

The Energy Review identified an expected need in the UK of “around 25 GW of new electricity generation capacity by 2025”. It is, therefore, clear that even a modest increase in the cost of capital of a few basis points could offset the potential benefit suggested by Oxera (£3.5m - £9.9m). For example, based on an average new build cost of some £800/kW, for 25GW of new capacity, even 5 basis points on the cost of capital would result in an additional financing cost for this generation of around £10m per annum, more than the perceived benefits of the proposal of £3.5m - £9.9m.

## **Adverse Impact on the Government’s Climate Change Objectives**

### **Environmental impact**

Given the location of plant, with for example 1.3 GW of renewable hydro in northern Scotland, large quantities of environmentally efficient plant such as gas-fired CCGTs and FGD-equipped plant in the North of GB and less environmentally efficient OCGTs and oil-fuelled plant in southern GB, we do not believe that there will be any overall environmental benefit from this proposed change. Indeed there is the potential that generation output from the most suitable environmental plant would be reduced, whilst the most environmentally damaging plant would increase their output.

We believe that the suggested environmental saving through a theoretical reduction in losses that might be achieved by implementing P198 would be far outweighed by its implementation through (a) the reduction in output from the more environmentally benign plant in the north and (b) the increase in emissions from the least environmentally benign plant in the south. For example, for a CCGT in the North to change its mode of running from baseload all year to two-shifting through the winter, to be replaced by coal-fired generation in the South, UK CO<sub>2</sub> emissions would be increased by some 1mTc per annum.

Noting that new emission limits will cap operation of more carbon-intensive plant, even if certain plant (opted-out limited hours coal plant) could increase their running, this would simply advance the date of their closure with its consequential effect on security of electricity supply.

As noted above, an anomaly associated with the methodology of P198 is that it creates zonal loss factors which are negative. Negative loss factors, when applied to customer demand will encourage increased energy use. It should be noted that such perverse signal was removed from NGET’s TNUoS Charging methodology.

We believe that the implementation of the proposal is likely to be detrimental to the Government’s overall environmental objectives.

### **Impact on Renewable Generation**

We believe that P198 will impair the achievement of the Government’s stated renewable generation objectives. It is recognised that most renewable developments will be sited in Scotland, and in particular, in northern Scotland. Approval of P198 would, therefore, increase the cost of renewable generation and this could undermine new tidal/wave technologies and offshore wind, for which the economics are already challenging. We would therefore question whether approval of P198 would be consistent with the Authority’s duty to have regard to sustainable development.

Given the potential substantial impact of P198 on new and existing renewable generators, many of which are located in the furthest parts of the network that would attract a high loss factor under the proposals, we believe that implementation of P198 could be inconsistent with the Renewables Directive. Approval of P198 would, for example, mean that the Authority was declining to undertake their the duty under Art 7(6) of the Renewables Directive to ensure lack of discrimination against electricity from renewable sources.

In addition, the Government is committed to the advancement of renewable generation through the Renewables Obligation. Implementation of this zonal losses modification will transfer part of the RO

subsidy from Northern renewable generation to Southern non-renewable generation. This cannot have been the Government's intention.

## **There has Been No Expectation of change**

### **Statements in Prospectuses**

It has been asserted by a number of BSC Parties, and others, who argue in support of zonal losses that the need for change has been signalled for some time and hence that market participants should have taken this into consideration when making investment and/or longer term contracting decisions.

However, we note that there was no reference to reforming transmission charging in the Scottish Privatisation Prospectuses. Furthermore, there does not appear to be any reference to the possible introduction of a "zonal" scheme etc., for transmission losses in the Prospectuses for the other privatised companies (the RECs, National Grid, National Power & Powergen and British Energy). For example:-

#### *Regional Electricity Companies, 1990*

Prospectus Regional Electricity Companies, p. 27,28, 29 (this text is also included in the prospectus of National Power and PowerGen, Section 1, General/31) and 90.

#### *National Power/Powergen, 1991*

Main prospectus for National Power and PowerGen, p. General/ 44 (the text in the prospectus stems from a statement dated 17<sup>th</sup> October 1990 sent by the DGES to the Secretary of State) General/46 and p. National Power/36.

#### *British Energy, 1996*

Prospectus British Energy Share Offer, p.18, 35, 42, 43, 45, 110, 148 and 185

Other parties may also claim that the introduction of zonal losses has been signalled through the proposals to introduce zonal losses into the rules of the E&W Electricity Pool. However, as noted the Electricity Pool was an E&W market, the successor of which has only recently (2005) been extended to GB. The two Scottish companies operated in a separate Scottish market free from any expectation of zonal losses being introduced into the market. Indeed, even as the E&W market was being extended into Scotland, the then Secretary of State made categorically clear in his designation of the GB BSC for the introduction of BETTA, that provisions relating to zonal losses were to be excluded. The introduction of P198 would, therefore, demonstrably be in contrast to all previous signals for the Scottish market and inconsistent with the intent of the legislation to introduce BETTA.

### **(i) Legitimate Expectation**

In 1990, when the competitive market was introduced into England and Wales, transmission losses were removed as a factor in the applicable charging system in the new commercial framework arrangements, namely the Pooling and Settlement Agreement.

In addition since the early 1990s there have been at least two major fundamental reviews instigated, managed, directed and determined by Ofgem/Government, namely NETA (in 2001, which replaced the commercial arrangements introduced into England & Wales in 1990) and BETTA (in 2005, which amended some elements of NETA and also extended NETA into Scotland).

It is worth noting, for example, in the run up to NETA (as well as for BETTA) Ofgem did consider the possibility of introducing zonal losses. The following documents are of relevance in this regard:-



- a) Ofgem consultation paper (1999), "NGC System Operator Incentives, Transmission Access and Losses under NETA", December 1999;
- b) Ofgem consultation paper (2001), "Transmission Access and Losses under NETA", May 2001; and
- c) Ofgem consultation paper (2002), "Transmission Access and Losses under NETA, revised proposals".

Despite this on neither the occasion of NETA, or BETTA, did Ofgem (or the Government) seek to use these opportunities to specifically introduce zonal losses (as they were capable of doing, and did do for other changes). Therefore the arrangements with respect to the treatment transmission losses have been the same since 1990.

Furthermore, we note that Ofgem (or its predecessor, Offer, the Office of Electricity Regulation) has:-

- a) supported the expansion of the transmission network to increase the amount of electricity transmitted from northern GB to southern GB (see, for example, the regulatory approval given by Ofgem – or its predecessor Offer - for the North Yorkshire Line and RETS); and
- b) not sought to reduce the amount of generation built in northern GB (by, for example, seeking a moratorium on Section 36 planning approval for new generation in northern GB).

Thus Ofgem has created, over time, a “legitimate expectation” that locating generation in northern GB was both acceptable and appropriate. If a zonal losses scheme were to be introduced it would run counter to this “legitimate expectation” and increase the regulatory risk and associated negative cost of capital implications.

## **Ofgem’s Wider Duties**

### **Wider duties**

In addition to considering whether P198 better achieves the Applicable BSC Objectives (which we think it does not) we have also been mindful of other relevant matters which the Authority will need to take into account, over and above, the BSC Applicable Objectives when considering P198.

In particular we are mindful of the Authority’s responsibilities under the Human Rights Act 1998 not to act in a manner incompatible with a party’s property rights and the related matter of complying with Article 1 of the First Protocol of the European Convention on Human Rights and proportionality.

Applying the proposed scheme to generation in Northern GB (and demand in Southern GB) the proposed scheme envisaged by P198 would, in our view, be a disproportionate interference with those parties’ property rights. We note that the principle of ‘proportionality’ involves more than just identifying a ‘net’ economic ‘benefit’.

The supposed benefit (which, as we outline elsewhere in this answer, we do not believe exists) must be such as to justify the impact on those detrimentally affected and not impose an “excessive” burden. Given the substantial financial impact on the economics of Northern generation, which runs into many millions of pounds, we do not consider that the implementation of zonal losses would be proportionate compared to the overall perceived benefit (£3.5m - £9.9m). Furthermore, we have seen no evidence in the consultation documentation issued (including the reports prepared by Oxera or Siemens PTI) that this issue has even been considered, let alone addressed.

**Question 2. Do you agree with the Panel’s provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 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 P198 should not be made.

We do not believe that Alternative Modification P198 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline. Our rationale for this is detailed in Qu. 1 above.

As noted in our response to Qu 1, we do not believe that either the Alternative P198 (or Proposed P198) should be implemented. If, however, P198 is to go ahead, then a phased introduction over a number of years (as envisaged by P198 Alternative) would be more appropriate. P200 would provide a better approach, than either P198 Proposed or Alternative, but the best approach would be to retain the current Code baseline.

**Question 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.**

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 P198 Modification Proposal.

**Question 4. Do you agree with the Panel’s provisional recommendation concerning the Implementation Date for P198? Please give rationale.**

Whilst we do not believe that either P198 Original or Alternative should be implemented, we support the implementation approach as described in the consultation document. It seems a pragmatic solution to implement P198 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.

**Question 5. Are there any further comments on P198 that you wish to make?**

For the reasons outlined above we do not believe that P198 (Proposed or Alternative) will better facilitate either:

- *BSC Objective A* relating to the efficient discharge by the licensee (NGC) of the obligations imposed upon it by its licence; or
- *BSC Objective B* by enhancing the efficient, economic and coordinated operation by the licensee (NGC) of the licensees transmission system; or
- *BSC Objective C* relating to the promotion of effective competition in the generation and supply of electricity, and (so far as consistent therewith) and the promotion of such competition in the sale and purchase of electricity.

For the avoidance of doubt we are ‘neutral’ with respect to *BSC Objective D* as we do not believe that P198 (Proposed or Alternative) will have any effect (positive or negative) with respect to this objective – this should not be construed, in any way, as lending support for P198 (Proposed or Alternative).

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

Yours sincerely

Garth Graham  
Scottish and Southern Energy

## P198 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>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>	E.ON UK Energy Services Limited
<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 P198 <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 P198 <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.
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.

Q	Question	Response	Rationale
4.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? 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 P198 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 '**P198 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](mailto:kathryn.coffin@elexon.co.uk).