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Dear Nick,

BSC modification proposals P198, P200, P203 and P204 – zonal transmission losses: request for clarification of certain aspects of the Oxera cost-benefit analysis

On 22 September 2006, the BSC Panel submitted to the Gas and Electricity Markets Authority ("the Authority") final modification reports ("FMRs") in respect of three proposals to modify the BSC in relation to the treatment of transmission losses - P198, P200, and P203. A FMR for a fourth proposal - P204 - was submitted to Ofgem on 12 November 2006.

During the assessment procedure for these four modification proposals, the BSC Panel commissioned Oxera Consulting ("Oxera") to undertake some cost-benefit analysis on the proposals. The Oxera analysis which covered all of the above modification proposals was set out in two reports and was included in the annexes to the P198 and P204 FMRs.

We are in the process of considering the above-mentioned FMRs, including the Oxera analysis. During this process, we have identified certain aspects of the Oxera analysis which we would like to be clarified. A list of the points which we would like to be clarified is set out in the appendix to this letter.

The purpose of this letter is to ask the BSC Panel to seek from Oxera clarification of the points addressed in the attached appendix. Assuming the BSC Panel are willing to do that, and as we are hoping to issue our impact assessment on the modification proposals in the earliest possible timeframe, it would be helpful if you could arrange for this clarification to be provided as soon as possible and, in any event, by 15 January 2007.

Should you have any questions with regard to this request please contact me in the first instance.

Yours sincerely,

Grant McEachran
Head of Transmission Charging

Appendix 1: Areas of information clarification from Oxera

The relevant documents to which these questions refer are:

- "What are the costs and benefits of zonal loss charging?", OXERA, July 2006
- "What are the costs and benefits of annual and seasonal scaled zonal loss charging?", OXERA, September 2006

1. Explain the modelling approach in more detail

The approach taken in the cost benefit analysis has centred on comparing the results of modelling potential market scenarios under both uniform loss charging (the 'base case') and zonal loss charging (the 'change case') in order to assess the impact of the zonal losses scheme. The reports[1] outline the modelling approach used to derive the results for these scenarios for each year.

We seek further clarification on: (i) the approach used to derive the uniform losses scenario against which the impact of zonal losses charging are compared from 2007/08 onwards; (ii) what are the new entry assumptions you have made under uniform loss charging and are these the same under the locational TLFs, and if not, why are they different.

2. Clarify the snapshot approach used for seasonal scenarios

The reports set out the modelling approach by which the results for annual scenarios are derived as being based on results from three snapshot periods (peak, midpoint, trough). While results for seasonal scenarios are based on BSC season, it is unclear whether each season is similarly divided into three snapshots or whether the seasonal results are derived from weighted averages of the annual snapshot results.

We seek further clarity on the use of snapshot periods for scenarios based on seasonal TLFs.

3. Provide results for the uniform losses base cases for each scenario

The analysis of annual loss savings[2] reports the level of variable losses in the uniform losses base case scenario against which the zonal losses scenario results are compared, in addition to the change in losses between these scenarios. We note that in other analysis where the report shows the impact of the zonal losses scheme it does not show the equivalent results for a uniform losses scheme e.g. the analysis of changes in annual output by zone[3] and by fuel type[4].

We seek further clarity on the reasons for the exclusion of this analysis and the implications for the overall consideration of the cost and benefits of the proposed schemes.

[1] Section 2 and Appendix 1 of each report
[2] Section 3.5 and Figure 3.8 of the July report and Section 3.7 and Figure 3.11 of the September report
[3] Section 3.3 of the July report and Section 3.5 of the September report
[4] Section 3.4 of the July report and Section 3.6 of the September report

4. Explain the difference between the results for the uniform losses base cases of the central and seasonal scenarios

The analysis of annual loss savings discussed in Question 3 includes zonal losses scenarios which are based on the same underlying market assumptions but differ according to whether the given zonal losses scheme is based on annual TLFs (the Central scenario) or seasonal TLFs (the Seasonal scenario).

The results of Oxera's analysis show a significant difference between annual and seasonal loss scenarios, with the base case variable losses being significantly higher for seasonal scenarios than the equivalent annual scenario[5].

We seek further clarification on this difference in light of the fact that the base case variable losses for seasonal and annual scenarios are based on the same underlying market assumptions according to the Central scenario.

[5] The "Variable uniform losses" in Table 3.17 vs. Table 3.20 in the July report and Table 3.10 vs. Table 3.11 in the September report