

Responses from P178 Assessment Consultation

Consultation Issued 15 November 2004

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Scottish and Southern	P178_AR_001	5	0
2.	Uskmouth Power Company Limited	P178_AR_002	1	0
3.	E.ON UK	P178_AR_003	15	0
4.	Central Networks	P178_AR_004	1	0
5.	RWE Npower	P178_AR_005	10	0
6.	EDF Energy	P178_AR_006	9	0
7.	British Gas Trading	P178_AR_007	1	0

Dear Sirs,

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

In relation to the nine questions contained within your note of 15th November 2004, and the associated Assessment Consultation for P178, we have the following comments to make:-

Q1 Do you believe that the Proposed Modification P178 would better facilitate the achievement of the Applicable BSC Objectives? Please state objective(s) and give rationale.

Subject to the use of the Deposit Option 3 arrangements outlined in the report, as amended by our comments below, Yes we believe that the Proposed Modification P178 would better facilitate the achievement of the Applicable BSC Objectives.

Note: our references below to "withdrawing Party" refers only to those Parties to whom this Modification proposal would apply; i.e. Non-Supplier Trading Parties.

Q2 Do you support the solution developed by the Modification Group for the administration of the 'withdrawal deposit' by the FAA? Please give rationale.

Yes. We support the solution developed by the Modification Group for the administration of the 'withdrawal deposit' by the FAA, as outlined in Section 2.2 of the Consultation Document.

Q3 Which of the following four options, as outlined in the consultation document, do you believe to be most appropriate calculation for the 'withdrawal deposit'? Deposit Option 1: Average Credited Energy Volume change scaled to Party; Deposit Option 2: Average Reconciliation Charges change scaled to Party; Deposit Option 3: Party-specific estimated Reconciliation Charges (P152 calculation); Deposit Option 4: Amount to be set by the Panel. If none of the above, please provide rationale.

Subject to our comments under Q6 below we believe that Option 3 is the most appropriate methodology to use to determine the deposit level as it is clearly linked to the withdrawing Party's historical behaviour (see comments under Q5 below).

Option 1 is unsuitable as it is linked to CAP which may not fully reflect the funds involved, potentially leaving the market exposed to paying any shortfall between the deposit level and the eventual outturn.

Option 2 is unsuitable as it is linked to the withdrawing "Party's GC at its last day of trading", which may be open to 'abuse' by the withdrawing Party who might seek to reduce their GC, and thus their exposure to the deposit.

Option 4 is unsuitable as it is arbitrary and is not specifically linked to the withdrawing Party's historical behaviour, and thus potentially leaves the market exposed to paying any shortfall between the deposit level and the eventual outturn.

Q4 Do you believe that the calculations under Deposit Options 1 and 2 should seek to cover a) Average; or b) Higher than average changes? (please give rationale). If neither of the above, please provide rationale.

Please note our response to this question should not be construed to lend support whatsoever to either Deposit Options 1 or 2.

The calculations under Deposit Options 1 and 2 should seek to cover Higher than average changes as both Deposit Options 1 and 2 are not specifically linked to the withdrawing Party's historical behaviour, and thus potentially leaves the market exposed to paying any shortfall between the deposit level and the eventual outturn. A Higher, rather than an Average, figure is more likely to

ensure that the exposure of the market is reduced.

Q5 Do you believe that a standard minimum deposit amount should be set for non-physical traders under Deposit Options 1 and 2? Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.

Please note our response to this question should not be construed to lend support whatsoever to either Deposit Options 1 or 2.

Any standard minimum deposit amount should be directly linked to the withdrawing Party's historical behaviour (based on the the Deposit Option 3 approach) and should err on the side of caution by being set at a Higher level than that directly achieved by the Option 3 calculation; i.e. the Option 3 figure plus 'X%'. The 'X%' should be set by the Panel, who could take advice from Elexon based on what the maximum % shortfall would have been if this P178 (Deposit Option 3) approach had been in effect when the other Parties have withdrawn from the BSC.

The beneficiary of this Modification would be any withdrawing Party. However, such benefit should not be at the expense of any other BSC Party as this would amount to a cross subsidy from non-withdrawing Parties to the withdrawing Party. Given this it is fair and reasonable that in return for being able to withdraw from their BSC liabilities (and reap the benefits outlined in Section 1.1.2 of the Consultation document) that the withdrawing Party pays a full and fair representation of their likely cost (plus an 'X%' premium to cover the risk that the deposit amount does not fully cover all their anticipated liabilities to the BSC). Clearly after the BSC arrangements have run their course then the withdrawing Party's complete (and final) actual liabilities can be calculated. Once the deposit has been deducted then this will result in either a true 'shortfall' or 'surplus'. Any shortfall (between the deposit paid by the withdrawing Party and its actual, final, liabilities) will be paid for by the other, non-withdrawing, Parties whilst any surplus will be returned to the withdrawing Party.

Q6 Do you believe that a standard minimum deposit amount should be set under Deposit Option 3 for Parties which have not traded during the past 12 months? Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.

Yes, the standard minimum deposit amount should be set under Deposit Option 3 by ensuring that the amount (calculated under the Option 3 approach) is always based on the last 12 months of trading. Where a withdrawing Party has not traded for more than 12 months then the figure should be based, pro rata, on the period up to 12 months that the withdrawing Party has been trading for.

Q7 Do you believe a 'ratchet' mechanism to be appropriate? If yes, please indicate whether you believe this should be: Ratchet Option A: The original amount scaled to the number of months remaining till RF; Ratchet Option B: The deficit amount multiplied by number of months remaining till RF; Ratchet Option C: A set multiple of the deficit amount (e.g. 5, 10). If none of the above, please provide rationale.

Yes. We believe a 'ratchet' mechanism to be appropriate as it applies in circumstances where the FAA has flagged up a shortfall. If a 'ratchet' mechanism were not in place then the shortfall could grow and as any shortfall will be paid for by all other non-withdrawing Parties this would amount to a cross subsidy from non-withdrawing Parties to the withdrawing Party. We believe that either Ratchet Options 1 or 2 may be suitable although we would like to see further clarification from the Modification Group on the details before making a definitive choice between these two options. For the avoidance of doubt we do not believe that Ratchet Option 3 would be suitable as it is an arbitrary amount and therefore less reflective of the likely shortfall going forward.

Q8 Do you believe there to be an Alternative Modification which, when compared with the Proposed Modification, would better facilitate the achievement of the Applicable BSC Objectives in relation to the defect identified by the Modification Proposal? Please provide rationale.

Yes. As per our comments under Q6 above the standard minimum deposit amount should be set under Deposit Option 3 by ensuring that the amount (calculated under the Deposit Option 3 approach) is always based on the last 12 months of trading. Where a withdrawing Party has not traded for more than 12 months then the figure should be based, pro rata, on the period up to 12 months that the withdrawing Party has been trading for.

Q9 Do you believe there are any other issues that the Modification Group has not identified and that should be considered as part of the Assessment Procedure for P178? Please give rationale.

Nothing further at this time.

regards

Garth Graham
Scottish and Southern Energy

P178 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Sam Murray
No. of Parties Represented	1
Parties Represented	Uskmouth Power Company Limited
No. of Non Parties Represented	
Non Parties represented	
Role of Respondent	Generator

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe that the Proposed Modification P178 would better facilitate the achievement of the Applicable BSC Objectives? Please state objective(s) and give rationale.	Yes	Parties who are no longer active should be able to leave the BSC in a timely manner. This would improve competition and result in the more efficient running of the BSC.
2.	Do you support the solution developed by the Modification Group for the administration of the 'withdrawal deposit' by the FAA? Please give rationale.	Yes	This option seems sensible. The FAA already have informal processes to carryout the administration of a deposit, so formalisation should be relatively low cost.

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	<p>Which of the following four options, as outlined in the consultation document, do you believe to be most appropriate calculation for the 'withdrawal deposit'?</p> <p>Deposit Option 1: Average Credited Energy Volume change scaled to Party;</p> <p>Deposit Option 2: Average Reconciliation Charges change scaled to Party;</p> <p>Deposit Option 3: Party-specific estimated Reconciliation Charges (P152 calculation);</p> <p>Deposit Option 4: Amount to be set by the Panel.</p> <p>If none of the above, please provide rationale.</p>	<p>Deposit Option: 3 / 4</p>	<p>Option 3 – would give the best estimate of a party's actual indebtedness over the period to be considered (the time from withdrawal to RRF). Both options 1 & 2 will lead to security levels that either over or under represent the party's own liabilities.</p> <p>Option 4 – may be the best means to implement legal text, allowing the flexibility to fine tune the calculation in light of experience.</p> <p>Our favoured route for implementation is therefore Option 4, based on an Option 3 calculation being used by the Panel.</p>
4.	<p>Do you believe that the calculations under Deposit Options 1 and 2 should seek to cover</p> <p>a) Average; or</p> <p>b) Higher than average changes? (please give rationale).</p> <p>If neither of the above, please provide rationale.</p>	A	<p>If the calculation uses options 1 & 2 then BSC should seek to cover average debts. If a party does intend to pay the BSC should be imposing onerous penalties on parties to leave the market.</p> <p>See additional suggestion under question 9.</p>
5.	<p>Do you believe that a standard minimum deposit amount should be set for non-physical traders under Deposit Options 1 and 2?</p> <p>Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.</p>	Yes	<p>The minimum amount is needed to cover the monthly charge and any additional payments that may fall due. As the modification seeks to help parties to withdraw leaving no debts, then some form of security from all parties seems equitable.</p>
6.	<p>Do you believe that a standard minimum deposit amount should be set under Deposit Option 3 for Parties which have not traded during the past 12 months?</p> <p>Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.</p>	No	<p>If they have not traded for that amount of time the chances of them owing any significant money is extremely small. It is therefore in the interests of administrative efficiency that the BSC does not administer a tiny deposit to retrieve a minimal amount of money. The costs would be likely to significantly outweigh the benefits and they are costs other parties will ultimately pay.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
7.	<p>Do you believe a 'ratchet' mechanism to be appropriate? If yes, please indicate whether you believe this should be:</p> <p>Ratchet Option A: The original amount scaled to the number of months remaining till RF;</p> <p>Ratchet Option B: The deficit amount multiplied by number of months remaining till RF;</p> <p>Ratchet Option C: A set multiple of the deficit amount (e.g. 5, 10).</p> <p>If none of the above, please provide rationale.</p>	<p>Yes</p> <p>Ratchet Option: C</p>	<p>A ratchet should ensure that the BSC parties who are withdrawing do end up paying all their bills in a timely manner.</p> <p>Option C is most likely to give the deposit increase that reflects any outstanding bills for which the party will become liable. Using the remaining months as the multiple seems likely to result in a more random calculation (initially too great and latterly too little). It is also best that the ratchet is only likely to be needed once, so should be based on around 5x deficit.</p>
8.	<p>Do you believe there to be an Alternative Modification which, when compared with the Proposed Modification, would better facilitate the achievement of the Applicable BSC Objectives in relation to the defect identified by the Modification Proposal?</p> <p>Please provide rationale.</p>	No	
9.	<p>Do you believe there are any other issues that the Modification Group has not identified and that should be considered as part of the Assessment Procedure for P178?</p> <p>Please give rationale.</p>	Yes	<p>If Options 1 or 2 were used, is it worth considering an appeals mechanism? For example, if the calculation covered "above average" liabilities, leaving a party with a deposit that was significantly greater than they would reasonably expect to pay could they appeal the deposit to the Panel?</p>

Parties are encouraged to provide financial information with regards to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **17:00 on Monday 22 November 2004** to modification.consultations@elexon.co.uk and please entitle your email '**P178 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

P178 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	<i>E.ON UK plc</i>
No. of Parties Represented	<i>15</i>
Parties Represented	E.ON UK plc, Powergen Retail Limited, Cottam Development Centre Limited, Enizade Ltd, E.ON UK Drakelow Limited, E.ON UK Ironbridge Limited, E.ON UK High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy.
No. of Non Parties Represented	N/A
Non Parties represented	N/A
Role of Respondent	Supplier, Generator, Trader, Consolidator & Exemptable Generator

Q	Question	Response	Rationale
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Q	Question	Response Error! Bookmark not defined.	Rationale
1.	<p>Do you believe that the Proposed Modification P178 would better facilitate the achievement of the Applicable BSC Objectives? Please state objective(s) and give rationale.</p>	No	<p>The 14 month waiting period has existed within the BSC since NETA Go-Live. It was introduced in an attempt to try and protect other Parties due reimbursements from a Party that had ceased trading. Evidence since then has indicated that, in fact, all settlement days since Go-Live have had a further DF run and in some cases Extra Settlement Determinations (a number of which are still awaiting settlement for the very early days of NETA). Therefore, if anything, the timescale for withdrawal should be extended not reduced. We firmly believe that contrary to the assertions within this modification, competition can only be damaged by a reduction in timescale. Potential Parties are more likely to accede to the Code if they have the comfort and knowledge that fellow participants are in for the longer term, and hence are more likely to settle their outstanding bills, rather than join, trade for a few weeks and then leave without a trace. We therefore believe that P178 would be detrimental to competition.</p> <p>The proposer suggests that this modification may achieve greater levels of efficiency within the Code. In fact we consider it significantly more likely that the proposed deposit mechanisms will result in more work and increased costs for BSCCo when compared against the current arrangements. As such P178 could only have a negative effect on the efficiency of the Code.</p> <p>As discussed above we do not believe that the Code baseline can be improved by this modification. Furthermore, we remain unconvinced of the benefits to the party wishing to leave the Code. The main stated benefit is that parties would be able to wind up in a more efficient manner. VAT law will essentially prevent the achievement of this 'early exit' for the following reason (as provided by BSCCo): <i>The FAA would have to continue to issue Confirmation notices to the withdrawn Party in order to comply with its own legal obligation to issue VAT invoices within 30 days of a transaction. The withdrawn party would be required by VAT law to remain a legal entity (i.e. retain an office and minimum staff) in order to receive these VAT invoices and enter them on that legal entity's VAT return.</i></p>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
2.	Do you support the solution developed by the Modification Group for the administration of the 'withdrawal deposit' by the FAA? Please give rationale.	Yes	Notwithstanding our opposition to this modification, we concur with the modification group that should a withdrawal deposit be lodged, the FAA would appear to be an appropriate body to carry out this function. We also note that the FAA already operates an informal process whereby parties can lodge a cash sum to cover Trading Charge liabilities. We regard this as an existing opportunity for parties expecting to withdraw to simplify their exit, without increasing the risk of their non-payment on remaining Parties.
3.	Which of the following four options, as outlined in the consultation document, do you believe to be most appropriate calculation for the 'withdrawal deposit'? Deposit Option 1: Average Credited Energy Volume change scaled to Party; Deposit Option 2: Average Reconciliation Charges change scaled to Party; Deposit Option 3: Party-specific estimated Reconciliation Charges (P152 calculation); Deposit Option 4: Amount to be set by the Panel. If none of the above, please provide rationale.	Deposit Option: 1 / 2 / 3 / 4	Whichever deposit is chosen it must be set to cover the 'worst case scenario' . An insufficient deposit can only result in one of two outcomes; the utilisation of an inefficient and complex ratchet process, or the cross subsidy created by remaining parties covering the unpaid liabilities of a party who has left the Code and refuses to pay the additional ratchet sum.

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
4.	Do you believe that the calculations under Deposit Options 1 and 2 should seek to cover a) Average; or b) Higher than average changes? (please give rationale). If neither of the above, please provide rationale.	B	Please see rationale for Q's 1, 3 + 7.
5.	Do you believe that a standard minimum deposit amount should be set for non-physical traders under Deposit Options 1 and 2? Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.	Yes	Please see rationale for Q's 1, 3 + 7.
6.	Do you believe that a standard minimum deposit amount should be set under Deposit Option 3 for Parties which have not traded during the past 12 months? Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.	Yes	Please see rationale for Q's 1, 3 + 7.

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
7.	<p>Do you believe a 'ratchet' mechanism to be appropriate? If yes, please indicate whether you believe this should be:</p> <p>Ratchet Option A: The original amount scaled to the number of months remaining till RF;</p> <p>Ratchet Option B: The deficit amount multiplied by number of months remaining till RF;</p> <p>Ratchet Option C: A set multiple of the deficit amount (e.g. 5, 10). If none of the above, please provide rationale.</p>	<p>N/A</p> <p>Ratchet Option: A / B / C</p>	<p>Whilst we would strongly urge against the adoption of this proposal we believe that a ratchet mechanism could facilitate a method by which BSCCo could protect against unpaid liabilities. However, we would like to make the following assertions. Firstly, there is an argument proposed in support of this modification that parties can already reduce their credit cover to zero and leave the Code with out paying existing liabilities (ignoring payment requests from BSCCo). If this argument is to be accepted, there is no reason to suggest that a withdrawing party would be any more willing to pay an additional ratchet deposit once they have left the Code. Secondly, a ratchet mechanism further complicates the arrangements; this seems counterintuitive for a modification which seeks to improve efficiency. The deposit should be set to cover the 'worst case scenario'. An insufficient deposit can only result in one of two outcomes; the utilisation of an inefficient and complex ratchet process, or the cross subsidy created by remaining parties covering the unpaid liabilities of a party who has left the Code and refuses to pay the additional ratchet sum.</p> <p>Like the proposed deposit amount, the ratchet process will only result in an arbitrary figure. The failure for a party to meet their liabilities can only result in cross subsidisation from remaining parties. This in turn will have a detrimental effect on competition and therefore consumers. Given the arbitrary nature of this process we find it difficult to support any of the options provided. If this modification were to be considered acceptable, we would suggest that the deposit be set at a level which makes the likelihood of a ratchet mechanism miniscule.</p>
8.	<p>Do you believe there to be an Alternative Modification which, when compared with the Proposed Modification, would better facilitate the achievement of the Applicable BSC Objectives in relation to the defect identified by the Modification Proposal?</p> <p>Please provide rationale.</p>	<p>No</p>	

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
9.	Do you believe there are any other issues that the Modification Group has not identified and that should be considered as part of the Assessment Procedure for P178? Please give rationale.	No	

Parties are encouraged to provide financial information with regards to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **17:00 on Monday 22 November 2004** to modification.consultations@elexon.co.uk and please entitle your email '**P178 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

P178_AR_004.txt

P178 Assessment Consultation - responses requested by 22/11/04
From: Sue Pritchard

Sent: 22 November 2004 16:01

To: Modification Consultations

Subject: RE: P178 Assessment Consultation - responses requested by 22/11/04

Central Networks would like to return a response of 'No Comment' to the P178 Assessment Consultation.

Regards
Simon Sturgess

Registration Services
Central Networks

P178 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	<i>Louisa Stuart-Smith</i>
No. of Parties Represented	<i>10</i>
Parties Represented	RWE Trading GmbH, RWE Npower plc, Npower Co-gen Ltd, Npower Co-gen Trading Ltd, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd
No. of Non Parties Represented	
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe that the Proposed Modification P178 would better facilitate the achievement of the Applicable BSC Objectives? Please state objective(s) and give rationale.	No	<p>We do not believe that providing Parties with a quicker route for exiting the Market aids competition. The current obligations apply equally to all Parties and when signing on to the BSC each Party should be aware of its obligations should it ever wish to leave.</p> <p>On the other hand the Modification does have the potential to better facilitate the achievement of Applicable BSC Objective (d) - promoting efficiency in the implementation and administration of the balancing and settlement arrangements – but only if a process can be put in place that both reduces administrative effort and costs for BSCCo and does not place any additional risk on remaining BSC Parties.</p>
2.	Do you support the solution developed by the Modification Group for the administration of the 'withdrawal deposit' by the FAA? Please give rationale.	Yes	If a 'withdrawal deposit' is to be left by a withdrawing Party to allow it to leave the BSC early it appears to make sense to formalise the current informal process whereby Parties lodge funds with the FAA.

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	<p>Which of the following four options, as outlined in the consultation document, do you believe to be most appropriate calculation for the 'withdrawal deposit'?</p> <p>Deposit Option 1: Average Credited Energy Volume change scaled to Party;</p> <p>Deposit Option 2: Average Reconciliation Charges change scaled to Party;</p> <p>Deposit Option 3: Party-specific estimated Reconciliation Charges (P152 calculation);</p> <p>Deposit Option 4: Amount to be set by the Panel.</p> <p>If none of the above, please provide rationale.</p>	<p>Deposit Option: 3</p>	<p>The use of averages in Options 1 and 2 provides a risk of underestimation that would lead to the use of a 'Ratchet' process to recover any shortfall. We do not consider an overestimation to be a disincentive to Parties wishing to withdraw because they would receive a refund following RF.</p> <p>Option 4 is too arbitrary and does not provide enough structure for Parties wishing to leave to estimate the level of 'withdrawal deposit'.</p> <p>Option 3 is our preferred calculation for the 'withdrawal deposit' as it is based on an individual Party's historic data rather than an overall average of other Parties data. This proposed calculation appears to offer a more accurate calculation that gives more protection to remaining Parties against the risk of underestimation and the use of a 'Ratchet' process to attempt to recover any outstanding charges.</p>
4.	<p>Do you believe that the calculations under Deposit Options 1 and 2 should seek to cover</p> <p>a) Average; or</p> <p>b) Higher than average changes? (please give rationale).</p> <p>If neither of the above, please provide rationale.</p>	B	<p>If the Group indicates a preference towards either Options 1 or 2 then the calculation should seek to cover higher than average charges</p>
5.	<p>Do you believe that a standard minimum deposit amount should be set for non-physical traders under Deposit Options 1 and 2?</p> <p>Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.</p>	Yes	<p>If the Group indicates a preference for either Options 1 or 2 then a standard minimum deposit amount should be set for non-physical traders.</p> <p>This sum should be adequate to cover at least the share of a Party's BSC Charges and an estimate of any potential charges arising from the Settlements process.</p>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
6.	<p>Do you believe that a standard minimum deposit amount should be set under Deposit Option 3 for Parties which have not traded during the past 12 months? Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.</p>	Yes	<p>A standard minimum deposit amount should be set under Deposit option 3 for Parties that have not traded during the past 12 months.</p> <p>This sum should be adequate to cover at least the share of a Party's BSC Charges and an estimate of any potential charges arising from the Settlements process.</p>
7.	<p>Do you believe a 'ratchet' mechanism to be appropriate? If yes, please indicate whether you believe this should be:</p> <p>Ratchet Option A: The original amount scaled to the number of months remaining till RF;</p> <p>Ratchet Option B: The deficit amount multiplied by number of months remaining till RF;</p> <p>Ratchet Option C: A set multiple of the deficit amount (e.g. 5, 10).</p> <p>If none of the above, please provide rationale.</p>	<p>No</p> <p>Ratchet Option: None</p>	<p>We do not favour the use of a 'Ratchet' mechanism, preferring instead arrangements to calculate the level of a deposit which will be adequate to cover a Parties liability at the outset.</p> <p>The suggestion of the use of a 'Ratchet' mechanism to recover any shortfall highlights that the Modification does not provide enough of a guarantee that the initial deposit will cover all potential future charges until RF. The task of having to chase a Party that has been allowed to withdraw early from the BSC for additional unforeseen charges poses a considerable risk to remaining Parties who would have to pick up any additional outstanding costs.</p> <p>It cannot be guaranteed that disputes such as Damhead Creek will be one-off/rare events that the larger parties in the Market are capable of withstanding. Whatever arrangements we agree to put in place must be robust enough to cope with any future disputes and provide all Parties with enough assurance that they will not have to pick up any costs as a result of allowing another Party to withdraw from the Code early.</p>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
8.	Do you believe there to be an Alternative Modification which, when compared with the Proposed Modification, would better facilitate the achievement of the Applicable BSC Objectives in relation to the defect identified by the Modification Proposal? Please provide rationale.	No	
9.	Do you believe there are any other issues that the Modification Group has not identified and that should be considered as part of the Assessment Procedure for P178? Please give rationale.	No	

Parties are encouraged to provide financial information with regards to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

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P178 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Helen Bray (EDF Energy)
No. of Parties Represented	9
Parties Represented	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power) EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; London Energy plc; Seeboard Energy Limited
No. of Non Parties Represented	0
Non Parties represented	N/A
Role of Respondent	Supplier/Generator/ Trader

Q	Question	Response	Rationale
1.	Do you believe that the Proposed Modification P178 would better facilitate the achievement of the Applicable BSC Objectives? Please state objective(s) and give rationale.	No	EDF Energy does not support Proposed Modification P178. If it was possible to know exactly the amount of Parties' future charges, then these would be settled earlier in the reconciliation timetable and later Settlement Runs would not be required. We are concerned that P178 does not offer any benefits due to the VAT issues associated with it. As there is work involved in determining the amount of deposit to be left to cover charges we do not see that this modification introduces any efficiencies into the current process. Overall, EDF Energy does not believe that P178 better facilitates the achievement of the Applicable BSC Objectives.
2.	Do you support the solution developed by the Modification Group for the administration of the 'withdrawal deposit' by the FAA? Please give rationale.	Yes	

Q	Question	Response	Rationale
3.	<p>Which of the following four options, as outlined in the consultation document, do you believe to be most appropriate calculation for the 'withdrawal deposit'?</p> <p>Deposit Option 1: Average Credited Energy Volume change scaled to Party;</p> <p>Deposit Option 2: Average Reconciliation Charges change scaled to Party;</p> <p>Deposit Option 3: Party-specific estimated Reconciliation Charges (P152 calculation);</p> <p>Deposit Option 4: Amount to be set by the Panel.</p> <p>If none of the above, please provide rationale.</p>	<p>Deposit Option: 1 / 2 / 3 / 4</p>	<p>We do not support Option 4 as this Option requires using one of the methodologies set out in Options 1 to 3.</p> <p>We are happy to support the option chosen by the modification group, and we consider that all options are somewhat arbitrary hence the reason why Parties are not allowed to withdraw before the Final Reconciliation Settlement Run.</p>
4.	<p>Do you believe that the calculations under Deposit Options 1 and 2 should seek to cover</p> <p>a) Average; or</p> <p>b) Higher than average changes? (please give rationale).</p> <p>If neither of the above, please provide rationale.</p>	B	<p>We believe that the Deposit Options should seek to protect the remaining market participants and should therefore be higher than average.</p>
5.	<p>Do you believe that a standard minimum deposit amount should be set for non-physical traders under Deposit Options 1 and 2?</p> <p>Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.</p>	Yes / No	<p>We are happy to support the option chosen by the modification group.</p>
6.	<p>Do you believe that a standard minimum deposit amount should be set under Deposit Option 3 for Parties which have not traded during the past 12 months?</p> <p>Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.</p>	Yes / No	<p>We are happy to support the option chosen by the modification group.</p>

Q	Question	Response	Rationale
7.	Do you believe a 'ratchet' mechanism to be appropriate? If yes, please indicate whether you believe this should be: Ratchet Option A: The original amount scaled to the number of months remaining till RF; Ratchet Option B: The deficit amount multiplied by number of months remaining till RF; Ratchet Option C: A set multiple of the deficit amount (e.g. 5, 10). If none of the above, please provide rationale.	Yes / No Ratchet Option: A / B / C	We are happy to support the option chosen by the modification group.
8.	Do you believe there to be an Alternative Modification which, when compared with the Proposed Modification, would better facilitate the achievement of the Applicable BSC Objectives in relation to the defect identified by the Modification Proposal? Please provide rationale.	No	Please see our response to Q1.
9.	Do you believe there are any other issues that the Modification Group has not identified and that should be considered as part of the Assessment Procedure for P178? Please give rationale.	No	

Parties are encouraged to provide financial information with regards to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **17:00 on Monday 22 November 2004** to modification.consultations@elexon.co.uk and please entitle your email '**P178 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

P178 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Mark Manley
No. of Parties Represented	
Parties Represented	British Gas Trading (BGT)
No. of Non Parties Represented	
Non Parties represented	
Role of Respondent	

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
1.	Do you believe that the Proposed Modification P178 would better facilitate the achievement of the Applicable BSC Objectives? Please state objective(s) and give rationale.	No	<p>BGT do not believe the modification proposal better facilitates the Applicable BSC Objectives.</p> <p>BGT are concerned that any process that attempts to estimate participants' future liabilities could miscalculate that liability. BGT's main concern is in the instance where the calculation underestimates that liability which could result in the remaining BSC Parties being exposed to a bad debt. This bad debt will then be smeared amongst the remaining signatories to the BSC. Whilst this may be an infrequent occurrence the impact of the Emergency Instruction on May 19 is an example of what can happen to significantly change a parties liabilities in the later part of the reconciliation timetable. BGT believes this would have a detrimental impact on competition in the generation and supply of electricity.</p> <p>BGT are unsure how much emphasis potential new entrants to the market will place upon the exit process from the BSC. BGT believe entrants may</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>place more emphasis on the potential risks that they could face as part of being a signatory. Being exposed to a bad debt as a consequence of a Party leaving the code may be more of a concern than the 14-month lock in.</p> <p>BGT acknowledge there may be a small enhancement of Applicable Objective (d). However in view of the views provided by ELEXON as part of the Assessment phase it would appear there are very limited efficiency gains to be achieved. The impact on (d) would probably be negligible.</p>
2.	<p>Do you support the solution developed by the Modification Group for the administration of the 'withdrawal deposit' by the FAA? Please give rationale.</p>	Yes	BGT does not support the modification proposal but agrees with the solution developed by the group.
3.	<p>Which of the following four options, as outlined in the consultation document, do you believe to be most appropriate calculation for the 'withdrawal deposit'?</p> <p>Deposit Option 1: Average Credited Energy Volume change scaled to Party;</p> <p>Deposit Option 2: Average Reconciliation Charges change scaled to Party;</p> <p>Deposit Option 3: Party-specific estimated Reconciliation Charges (P152 calculation);</p> <p>Deposit Option 4: Amount to be set by the Panel. If none of the above, please provide rationale.</p>	Deposit Option: None	<p>BGT has concerns with all the options that have been developed as they all have the potential to undermine a party's future trading charges. All four options produce an arbitrary number, which may in some circumstances over cover the liability and in other circumstances under cover the liability.</p> <p>Option 1 and 2 are based on an average, which may well under estimate the liability.</p> <p>BGT did not support P152 and continues to believe that a party's historic charges will not necessarily be representative of their future liabilities.</p> <p>Option 4 does not appear to be sufficiently worked up to allow BGT to take a view on how appropriate the option could be.</p>
4.	<p>Do you believe that the calculations under Deposit Options 1 and 2 should seek to cover</p> <p>a) Average; or</p> <p>b) Higher than average</p>	Other	BGT believe the calculations should where ever possible attempt to cover the worst case scenario to protect the remaining BSC signatories from being exposed to a bad debt. BGT accept the difficulties of undertaking such a calculation. As the calculation will be based on a parties future

Q	Question	Response Error! Bookmark not defined.	Rationale
	changes? (please give rationale). If neither of the above, please provide rationale.		trading charges it is impossible to get assurance that the withdrawal deposit will cover the worst case scenario.
5.	Do you believe that a standard minimum deposit amount should be set for non-physical traders under Deposit Options 1 and 2? Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.	Yes	BGT believe that a deposit should be left, as to the basis of that calculation, BGT does not have any views on the basis for the calculation as it will be arbitrary irrespective of the methodology chosen.
6.	Do you believe that a standard minimum deposit amount should be set under Deposit Option 3 for Parties which have not traded during the past 12 months? Please provide rationale. If yes, please also indicate what you believe should be the amount/calculation for the amount.	Yes	BGT believe that a deposit should be left as to the basis of that calculation BGT does not have any views on the basis for the calculation as it will be arbitrary irrespective of the methodology chosen.
7.	Do you believe a 'ratchet' mechanism to be appropriate? If yes, please indicate whether you believe this should be: Ratchet Option A: The original amount scaled to the number of months remaining till RF; Ratchet Option B: The deficit amount multiplied by number of months remaining till RF; Ratchet Option C: A set multiple of the deficit amount (e.g. 5, 10). If none of the above, please provide rationale.	Yes Ratchet Option: C	BGT believe that a ratchet mechanism is required as it provides some assurance to the remaining code signatories. The ratchet like the original withdrawal deposit would be an arbitrary number. For ease of process BGT believe option C would be equally as valuable as the other options whilst benefiting from a simplicity perspective.
8.	Do you believe there to be an Alternative Modification which, when compared with the Proposed Modification, would better facilitate the achievement of the Applicable BSC Objectives in relation to the defect identified by the Modification Proposal? Please provide rationale.	No	BGT do not believe any alternative could be developed that is better than the current baseline.

Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Do you believe there are any other issues that the Modification Group has not identified and that should be considered as part of the Assessment Procedure for P178? Please give rationale.	No	

Parties are encouraged to provide financial information with regards to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **17:00 on Monday 22 November 2004** to modification.consultations@elexon.co.uk and please entitle your email '**P178 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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