

Responses from P175 Draft Report Consultation

Consultation Issued 16 December 2004

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	British Gas	P175_dMR_001	1	0
2.	RWE Trading GmbH	P175_dMR_002	10	0
3.	Scottish and Southern	P175_dMR_003	5	0
4.	E.ON UK	P175_dMR_004	15	0
5.	Teesside Power Ltd	P175_dMR_005	1	0
6.	EDF Energy	P175_dMR_006	9	0
7.	Central Networks	P175_dMR_007	1	0
8.	National Grid Transco	P175_dMR_008	1	0
9.	British Energy	P175_dMR_009	4	0
10.	Total Gas and Power Ltd	P175_dMR_010	1	0



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Our Ref.
Your Ref.
29 October 2004

Dear Sirs,

**Re: Modification Proposal P175 – Development of provisions related to certain Bid Offer
Acceptances issued pursuant to the Grid Code**

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P175. British Gas Trading (BGT) agrees with the Panel's provisional recommendation that the Modification should not be made.

The modification proposes to remove pay as bid provisions for a subset of acceptances and this fundamentally changes the principles of NETA. BGT believe this would have a negative impact on Applicable BSC objective (c) and will not better facilitate competition in the generation and supply of electricity as it could undermine the operation of the market.

BGT agrees with the proposed implementation date which is consistent with the suite of modification proposals being developed in this area.

If you have any questions regarding this response please contact me 01753 431137.

Yours faithfully

Mark Manley
Contract Manager

A *centrica* business

British Gas Trading Limited Registered in England No.3078711. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD
www.gas.co.uk

P175 REPORT PHASE CONSULTATION QUESTIONS

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

Respondent:	<i>Bill Reed</i>
No. of Parties Represented	10
Parties Represented	<i>Please list all Parties responding on behalf of (including the respondent company if relevant). RWE Trading GmbH; RWE Npower Ltd; Npower cogen Ltd; Npower cogen trading Ltd; Npower Direct Ltd; Npower Ltd; Npower northern Ltd; Npower northern supply Ltd; npower yorkshire Ltd; npower yorkshire supply Ltd.</i>
No. of Non Parties Represented	None
Non Parties represented	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant). None</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / other – please state ¹) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</i>

Q	Question	Response ¹	Rationale
1.	Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? <i>Please give rationale.</i>	No	If it is accepted that the pay is bid principle is not relevant for emergency instructions and intertrips, then we believe that P175 provides an appropriate solution to deriving cash out prices and to remuneration of parties that respond to NGC's instructions.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? <i>Please give rationale.</i>	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? <i>Please give rationale.</i>	Yes	
4.	Are there any further comments on P175 that you wish to make?	Yes	We note the Panel's concerns over the Pay as Bid principle. We believe that P175 provides an proportionate solution for the treatment of intertrips and emergency instructions while retaining governance in the BSC.

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

Please send your responses by **12:00 on 23 December 2004** to modification.consultations@elexon.co.uk and please entitle your email '**P175 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 either Roger Salomone (0207 380 4369, email address roger.salomone@elexon.co.uk) or Sarah Parsons (020 7380 4293, email address sarah.parsons@elexon.co.uk).

From: Garth Graham
Sent: 23 December 2004 09:58
To: Modification Consultations
Subject: P175 Report Phase consultation

Dear Sirs,

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

In relation to the four questions listed in the Report Phase Consultation document, contained within your note of 16th December 2004 concerning Modification Proposals P175, we have the following comments to make: -

Q1 Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? Please give rationale.

Yes, we agree with the Panel's proposed recommendation to the Authority that the Proposed Modification P175 should not be made.

We believe, on reflection, that the Proposed Modification P175 is fundamentally flawed for the following reasons.

First, we believe that P175 goes directly against the 'Pay as Bid' principle which is the cornerstone of the 'market' so often referred to by parties when promoting the benefits attributed to NETA (and indeed BETTA).

Lead Parties submit their Bid or Offer price based on an assessment of their costs and risks and within the context of a competitive market. It should be noted that Lead Party (unlike the System Operator) is unable to take other mitigating actions (such as change their Bid or Offer price) in reaction to the Emergency Instruction so there is no question of the System Operator being exploited as a distressed buyer.

If P175 were to be approved any Lead Party issued with an Emergency Instruction would not be able to realise the value of its Bid or Offer price, as other Parties can in respect of other instructions, and instead the Lead Party would have to go through a quasi judicial claims process (incurring increased cost and uncertainty in doing so). This disadvantages the Lead Party concerned and represents a future risk to all Lead Parties. This works against competition and therefore cannot be said to better achieve Applicable Objective (c).

Second, we believe that P175 is based on a false premise, namely that certain Bid or Offer prices may be "inappropriate". It is our belief that all submitted Bid or Offer prices are 'appropriate', noting that industry systems permit prices up to £99,999.00 to be used, so clearly in establishing NETA the Secretary of State, the Authority, the Transmission Company and Lead Parties consider all prices up to this level to be 'appropriate'.

The Bid or Offer price is set by the Lead Party based on an assessment of its costs and associated factors including taking account of the risk that if the station is turned off (by complying with the BOA) it may not be able to return to service in time to meet the requirements of the Lead Party, requiring them to purchase in the market place or go out of balance.

We are also mindful of the comments by the Authority in the decision letter concerning CAP 47 which states that "Ofgem considers that for a market to function properly, prices must be allowed to fluctuate according to market fundamentals. By introducing a fixed cap, and therefore introducing a limiting range within which prices can fluctuate, Ofgem considers that the investment signals for market providers would be distorted and impaired which would have a negative impact on the development of competition." Clearly the notion of an "inappropriate" Bid or Offer price implies that there is a Bid or Offer price that would be 'appropriate' and as such this 'appropriate' Bid or Offer price (by virtue of not being "inappropriate") would introduce a fixed cap which would distort and impair investment signals and as such cannot be said to better

achieve Applicable Objective (c).

Third, we believe that P175 would not address the defect as any Lead Party in the future who is subject to an Emergency Instruction could potentially be able to make a claim for compensation (by virtue of Article 1 of the First Protocol of the European Convention on Human Rights) based on a lack of recompense of costs incurred or of the market value (which in the absence of any other information would appear to be their Bid or Offer price).

Fourth, in conclusion, taking account of the above three points, along with the arguments outlined in Section 1.4 of the Report Phase Consultation document, we believe that P175 fails to better facilitate the achievement of the Applicable BSC Objectives.

Q2 Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? Please give rationale.

We do not agree with the Panel that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified with respect to the P175 Modification Proposal.

In particular, with regard to paragraph 9.4.3 (b) it is our clear understanding (having referred to Section 1.1.2 of the Report Phase Consultation document, Section 1.2.4.3 of the Assessment Report and Section G2.1.4 (e)) that the aim was to 'include' those items listed in G2.1.4 (e) as claimable costs, rather than to limit claimable costs only to any 'increase' in the amounts per se.

Accordingly, we believe that paragraph 9.4.3 (b) should be redrafted along the following lines: -

(b) "financing costs or overhead costs (borne or payable by the Lead Party or as provided in Section G2.1.4(b) by the Customer), including any increase in any insurance premia (which results directly from the Lead Party's complying with the Excluded Acceptance), may be counted as a cost for the purposes of calculating the excluded acceptance compensation amount."

In addition we believe that paragraphs 9.5.1(e) and (f) should be amended to make clear that the Panel should treat all such information as confidential (i.e. meet in closed session etc.).

Accordingly, we suggest amending paragraphs 9.5.1(e) and (f) to read: -

(e) "the Transmission Company shall provide to the Panel all such information as the Panel may reasonably require in order to enable it to determine the matters in paragraphs 9.3 and 9.4.5 and the Panel will treat all such information provided to it for the purposes of this paragraph 9.5.1(e) in a confidential manner;"

(f) "the Lead Party shall provide to the Panel all such information as the Panel may reasonably require in order to enable it to determine the matters in paragraph 9.4.5 and the Panel will treat all such information provided to it for the purposes of this paragraph 9.5.1(f) in a confidential manner;"

Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? Please give rationale.

If the Modification Proposal P175 is approved, we agree with the BSC Panel's provisional recommendation concerning the Implementation Dates

Q4 Are there any further comments on P175 that you wish to make?

Not at this time.

Regards

Garth Graham
Scottish and Southern Energy plc

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Scottish Hydro-Electric, Southern Electric, SWALEC and S+S are trading names of the Scottish and Southern Energy Group.

P175 REPORT PHASE CONSULTATION

Respondent:	E.ON UK plc
No. of Parties Represented	15
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	-
Non Parties represented	-
Role of Respondent	Supplier, Generator, Trader, Consolidator & Exemptable Generator

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? <i>Please give rationale.</i>	Yes	Like P173 this moves away from the "pay as bid" principle which would be detrimental to competition
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? <i>Please give rationale.</i>	No	It correctly addresses the solution, but the solution does not address the defect.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? <i>Please give rationale.</i>	Yes	
4.	Are there any further comments on P175 that you wish to make?	No	

P175 REPORT PHASE CONSULTATION QUESTIONS

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

Respondent:	<i>Teesside Power Limited</i>
No. of Parties Represented	1
Parties Represented	<i>Teesside Power Limited</i>
No. of Non Parties Represented	
Non Parties represented	
Role of Respondent	<i>Generator</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? <i>Please give rationale.</i>	Yes	TPL believes that in order to promote a competitive market, parties should pay (or be paid) as bid/offer.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? <i>Please give rationale.</i>		
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? <i>Please give rationale.</i>		
4.	Are there any further comments on P175 that you wish to make?		

Please send your responses by **12:00 on 23 December 2004** to modification.consultations@elexon.co.uk and please entitle your email '**P175 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 either Roger Salomone (0207 380 4369, email address roger.salomone@elexon.co.uk) or Sarah Parsons (020 7380 4293, email address sarah.parsons@elexon.co.uk).

P175 REPORT PHASE CONSULTATION QUESTIONS

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

Respondent:	Paul Chesterman (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) Jade Power Generation 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 Error! Bookmark not defined.	Rationale
1.	Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? <i>Please give rationale.</i>	Yes	
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? <i>Please give rationale.</i>	Yes / No	We would look to Elexon and the Modification Group to advise on the suitability of the Legal Text.
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? <i>Please give rationale.</i>	Yes	
4.	Are there any further comments on P175 that you wish to make?	No	

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P175_dMR_007.txt

RE: P171, P172, P173, P175 Report Phase consultation - responses requested by
5pm 23/12/04
From: Sue Pritchard
Sent: 23 December 2004 12:38
To: Modification Consultations
Subject: RE: P171, P172, P173, P175 Report Phase consultation - responses
requested by 5pm 23/12/04

Central Networks would like to return a response of 'No Comment' to the P171,
P172, P173, P175 Report Phase consultation

Regards
Simon Sturgess

Registration Services
Central Networks

P175 REPORT PHASE CONSULTATION QUESTIONS

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Respondent:	<i>National Grid Transco</i>
No. of Parties Represented	
Parties Represented	<i>National Grid Company plc</i>
No. of Non Parties Represented	
Non Parties represented	
Role of Respondent	<i>BSC Party</i>

Q	Question	Response	Rationale
1.	<p>Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? <i>Please give rationale.</i></p>	Yes	<p>Our views on this modification are expressed fully in our response to the assessment consultation. However we provide the following comments:</p> <p>P175 proposes to allow remuneration for a number of cost categories, such as plant damage, which we believe are not appropriate to be underwritten by the wider industry, particularly via the Balancing and Settlement arrangements. In this respect we believe the Avoidable Cost provisions currently contained within the BSC have already made this distinction and introducing contrary provisions could undermine those that already exist. Therefore we do not support this Modification proposal and agree with the recommendation of the Panel on this basis.</p> <p>However, Emergency instructions and the operation of Intertrips are events which occur, by definition, outside of the normal operation of the Balancing Mechanism. Therefore contrary to the majority Panel view, NGT believes it is appropriate to depart from the pay as bid principle in these circumstances.</p>

Q	Question	Response	Rationale
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? <i>Please give rationale.</i>	Yes	We note that P175 cannot be implemented with P171, P172 or P173 (or their Alternatives).
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? <i>Please give rationale.</i>	Yes	
4.	Are there any further comments on P175 that you wish to make?	No	

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Respondent:	<i>Martin Mate</i>
No. of Parties Represented	4
Parties Represented	<i>British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd, British Energy Generation (UK) Ltd</i>
No. of Non Parties Represented	-
Non Parties represented	-
Role of Respondent	<i>Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? <i>Please give rationale.</i>	Yes	In broad principle this proposal has potential to allow recompense to parties providing services to the System Operator, while at the same time not causing an anomalous effect on energy imbalance prices where the action has not been taken primarily for energy reasons. However, the proposal as developed does not provide any assurance that a party providing the relevant services will be able to recover its costs and reasonable return, either by compensation under the BSC, under other governances, or bilaterally. Therefore it does not better meet BSC objective (c) relating to competition, as a service is provided by a particular party for the benefit of others, but potentially not paid for. In the longer term, it could potentially lead to some of the relevant services becoming unavailable, affecting BSC objectives (a) and (b) relating to system operation. An example of cost explicitly excluded is the consequential imbalance costs in subsequent settlement periods, where purchase of energy at a loss may be required, particularly where market liquidity is low. Removal of payment at bid/offer removes the opportunity for a party to recover such costs.

Q	Question	Response	Rationale
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? <i>Please give rationale.</i>	Yes / No	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? <i>Please give rationale.</i>	Yes / No	
4.	Are there any further comments on P175 that you wish to make?	Yes / No	

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P175 REPORT PHASE CONSULTATION QUESTIONS

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Respondent:	<i>Sharif Islam</i>
No. of Parties Represented	1
Parties Represented	<i>Total Gas and Power Limited</i>
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/Trader)</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree with the Panel's views on Proposed Modification P175 and the provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P175 should not be made? <i>Please give rationale.</i>	Yes	The Pay-as-Bid principle should be respected and we also consider that ex-post determination for compensating a party for its balancing actions or in developing a proxy imbalance price is problematic and will introduce unnecessary uncertainty, complexity and inefficiencies into participation in the BM and operation of central arrangements.
2.	Do you agree that the legal text provided in the draft Modification Report correctly addresses the defect or issue identified in the Modification Proposal? <i>Please give rationale.</i>	Yes	
3.	Do you agree with the Panel's provisional recommendation concerning the Implementation Dates for P175? <i>Please give rationale.</i>	Yes	
4.	Are there any further comments on P175 that you wish to make?	No	

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