

Responses from P173 Assessment Consultation

Consultation Issued 28 October 2004

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	RWE Trading	P173_AR_001	10	0
2.	First Hydro	P173_AR_002	1	0
3.	E.ON UK	P173_AR_003	15	0
4.	National Grid Transco	P173_AR_004	1	0
5.	British Gas Trading	P173_AR_005	1	0
6.	BizzEnergy	P173_AR_006	1	0
7.	British Energy	P173_AR_007	4	0
8.	Scottish Power	P173_AR_008	6	0
9.	EDF Energy	P173_AR_009	9	0
10.	Teesside Power	P173_AR_010	1	0
11.	Scottish and Southern	P173_AR_011	5	0

P173 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>Bill Reed</i>
No. of Parties Represented	<i>10</i>
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	<i>None</i>
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 / 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 believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	The avoided cost claim route would imply that at least one cash out price would remain provisional until the claims process has been exhausted. This could take weeks or months and would impact on the integrity of the settlement process. Furthermore, the mandatory nature of the claims process could create an unnecessary burden for market participants and the BSC Panel, particularly in the event that the changes to BOA prices were not material. Finally, the use of avoidable costs for the BOA in cash out retains the potential distortion of cash out prices that exists under the current baseline.

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

Q	Question	Response ¹	Rationale
2.	<p>Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification:</p> <p>(a) Replacement Price Based on other Bids and Offers Available?</p> <p>(b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>Please give rationale and state objective(s)</p>	<p>(a) No</p> <p>(b) No</p>	<p>The payment of bids at replacement prices may not reflect the risks or costs incurred by BSC parties in responding to emergency instructions.</p> <p>The use of an amended version of avoidable costs would better reflect the risks imposed on the parties. However, the use of avoidable costs has the potential to distort cash out prices.</p>
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale</p>	No	Note that P175 provides a potential solution.
4.	<p>Do you support the implementation approach developed by the Modification Group (see section 2.3)?</p> <p>Please give rationale</p>	Yes	The lowest cost option should be implemented for these rare events.
5.	<p>Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate:</p> <p>(a) Option A?</p> <p>(b) Option B?</p> <p>(c) Option C?</p> <p>(d) None of the above (please specify approach favoured)?</p> <p>Please give rationale</p>	b	<p>Option A will distort the "main" cash out price, though the reverse cash out price will be correct</p> <p>Option B will allow the main price to be calculated, though the main price will remain in material doubt until the avoidable costs have been calculated. This is the best outcome for P173, though it highlights a significant shortcoming in the process</p> <p>Option C would result in both cash out prices being wrong until the avoidable costs route is completed.</p>
6.	<p>How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?</p>		Given the nature of the avoidable claims process, it may take parties a number of weeks to establish the relevant information.

Q	Question	Response ¹	Rationale
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	This Modification Proposal is concerned with the treatment of emergency instructions issued by NGC under BC2.9. Under these proposals, it is possible that the remuneration to a BM Unit could be significantly less under emergency circumstances than normal circumstances for responding to the same instruction/acceptance from NGC. Given that these emergency circumstances exist simply when NGC say they exist (BC2.9.1.1) and the potential for creating a perverse incentive on NGC to utilise emergency circumstances, the current definition of what comprises an emergency is woefully inadequate.
8.	Are there any further comments on P173 that you wish to make?	Yes	The Modification Proposal (under "Justification") implies that BM Units are required to respond without regard to the settlement implications, i.e. best endeavours. This is incorrect. BC2.9.2.1 requires response of a reasonable endeavours basis, i.e. subject to an economic test. The Modification Proposal needs to be assessed in this light.

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 **12:00 Midday on Tuesday 9 November 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P173 **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 Tom Bowcutt on 020 7380 4309, email address Thomas.bowcutt@elexon.co.uk.

P173 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>Libby Glazebrook</i>
No. of Parties Represented	<i>1</i>
Parties Represented	<i>First Hydro</i>
No. of Non Parties Represented	<i>none</i>
Non Parties represented	
Role of Respondent	<i>Generator</i>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
1.	Do you believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes / No	Yes with caveats. To fully support this mod we would like to see further clarity as to when emergency instructions will be issued to prevent any suggestion that they could be used to reduce the cost of balancing the system
2.	Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification: (a) Replacement Price Based on other Bids and Offers Available? (b) Replacement Price Based on Amended version of Avoidable Costs? Please give rationale and state objective(s)	(a) No (b) Yes	(a) Using replacement bid/offer prices might not reflect the intended prices that the party has submitted (b) An amended version of avoidable costs would allow damage to plant and apparatus arising from the acceptance to be taken into account.

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes / No	
4.	Do you support the implementation approach developed by the Modification Group (see section 2.3)? Please give rationale	Yes / No	
5.	Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate: (a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)? Please give rationale	a/b/c/d	A might result in large changes to cashout prices and cash flows. B ensures that the system direction is correct even if the price is wrong C might cause the system direction to flip B is therefore the most consistent
6.	How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?		1 month
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes / No	
8.	Are there any further comments on P173 that you wish to make?	Yes / 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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P173 ASSESSMENT PROCEDURE 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.	<p>Do you believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives?</p> <p>Please give rationale and state objective(s)</p>	No	<p>There are two issues which we disagree with.</p> <p>Firstly, P173 represents an undermining of the principle of pay as bid which is a fundamental characteristic of the balancing mechanism. Parties submit their bids/offers in the context of a competitive market and it is therefore not clear why they are inappropriate for these purposes. Parties are not able to change these bids/offers in reaction to the emergency instruction so there is no question that the SO can be exploited as a distressed buyer. However, what does happen is that the Party concerned is not able to realise the value of its bid or offer, as other Parties are in respect of other instructions, and instead has to go through an appeal process to claim compensation. This disadvantages the Party concerned and so represents a future risk to all Parties. This works against competition and therefore objective (c).</p> <p>Secondly, the alternative acceptance price which is constructed is fed into imbalance prices. Therefore, if it has been constructed in respect of a system action, it cannot be correct for the purpose of creating an energy</p>

Q	Question	Response	Rationale
			imbalance price. There is no attempt to remove it from the calculation or create an alternative energy price to go into imbalance prices, as in P172.
2.	<p>Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification:</p> <p>(a) Replacement Price Based on other Bids and Offers Available?</p> <p>(b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>Please give rationale and state objective(s)</p>	<p>(a) No</p> <p>(b) No</p>	<p>Both solutions undermine the pay as bid principle. Option (a) however, at least attempts to create an alternative energy price to go into imbalance prices.</p> <p>Both solutions would be detrimental to competition.</p>
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale</p>	No	
4.	<p>Do you support the implementation approach developed by the Modification Group (see section 2.3)?</p> <p>Please give rationale</p>	No	We do not support implementation of this modification.

Q	Question	Response	Rationale
5.	<p>Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate:</p> <p>(a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)?</p> <p>Please give rationale</p>	b	<p>Option b) is the best of the options. It at least allows for the acceptance to be honoured until the analysis of avoidable costs means otherwise. Additionally, it attempts to remove the acceptance from the imbalance price calculation.</p> <p>Option a) also allows the acceptance to be honoured, but does not remove it from the imbalance calculation. Therefore, it should be considered as second best.</p> <p>Option c) appears to mean that the party would not have its acceptance honoured until it was able to prove its avoidable costs. This would appear to follow a principle of being guilty until proven innocent.</p> <p>Of course, all of these options ultimately end up with the acceptance being overwritten with another acceptance. Therefore, we do not support any of them.</p>
6.	<p>How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?</p>		<p>This would depend on the detail of information required from the Panel and particularly if evidence from auditors was required. It is more a question of cost rather than time, associated with carrying out the analysis and attending any hearings which would be required. The amount of effort required is likely to be significant.</p>
7.	<p>Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?</p> <p>Please give rationale</p>	Yes	<p>There still doesn't seem to be a clear indication of why it is appropriate to undermine the pay as bid principle in these circumstances. The group should focus on this issue further to understand why it was deemed necessary in respect of emergency instructions at NETA Go Live, but not so now. What has changed? Additionally, it has been argued that the modification is required to avoid the effects of sleeper bids, without even considering the definition of such a bid. At what level would a bid be deemed to be a sleeper?</p>
8.	<p>Are there any further comments on P173 that you wish to make?</p>	No	

P173 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>National Grid Transco</i>
No. of Parties Represented	<i>1</i>
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 Error! Bookmark not defined.	Rationale
1	Do you believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	<p>Emergency Instructions are issued by NGC to maintain the integrity of the Transmission System in response to emergency conditions prevailing on part or all of the NGC Transmission System. In such circumstances an Emergency Instruction may be given to a BM Unit that may partly or completely mitigate the emergency conditions. NGC would expect any BM Unit in receipt of an Emergency Instruction to act upon it without delay in accordance with BC2.9 of the Grid Code without regard to the settlement implications.</p> <p>NGC believes that this modification would better facilitate the following Applicable BSC Objectives:</p> <p><i>(b) the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system</i></p> <ul style="list-style-type: none"> This modification would ensure that the Lead Party of the affected BM Unit will remain cost neutral as a result of responding to the 'relevant emergency instruction' removing any potential commercial disincentive

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>to respond to the 'relevant emergency instruction' which may arise if its prevailing Bid-Offer price did not adequately compensate it for the actions requested by NGC through the 'relevant emergency instruction'.</p> <p><i>(c) promote effective competition in the generation and supply of electricity and (so far as consistent therewith) promote such competition in the sale and purchase of electricity</i></p> <ul style="list-style-type: none"> • This modification would remove any potential distortion to Balancing Mechanism Prices brought about by Lead Parties attempting to factor the costs of responding to an Emergency Instruction into their Bid or Offer prices. By including an explicit mechanism for determining appropriate compensation for responding to a 'relevant emergency instruction' this removes the need for a Lead Party to factor the potential costs associated with responding to a 'relevant emergency instruction' into their Bid or Offer prices. • A 'relevant emergency instruction' is issued in response to emergency conditions prevailing on a part of the Transmission System. As such it is inappropriate that a party who responds to such an instruction has the potential to receive a financial "windfall" gain at the expense of other Parties, or be exposed to financial losses as a result of complying with the instruction. This modification would, by removing the potential for such gains or losses promote effective competition in the generation and supply of electricity and (so far as consistent therewith) promote such competition in the sale and purchase of electricity. <p>NGC also believes that the wider Industry should similarly not be exposed to losses or gains resulting from a 'relevant emergency instruction' through any consequential impact on Industry cashflows, including BSC Trading Charges and NGC's Balancing Services Use of System Charges. This Modification would only pass through those costs that would have</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			reasonably and prudently incurred as a result of the change in Exports and/or Imports caused by the 'relevant emergency instruction' and therefore promotes effective competition in the generation and supply of electricity and (so far as consistent therewith) promote such competition in the sale and purchase of electricity.
2	<p>Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification:</p> <p>(a) Replacement Price Based on other Bids and Offers Available?</p> <p>(b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>Please give rationale and state objective(s)</p>	<p>(a) No</p> <p>(b) No</p>	<p>(a) Replacement Price Based on other Bids and Offers Available?</p> <p>We do not believe that the potential alternative based around a Replacement Price based upon other Bids or Offers available would necessarily better facilitate the applicable BSC Objectives. Our views on this stem from our justification of the original Amendment Proposal which in part stated that we believe that remuneration for an Emergency Instruction should be cost reflective and that therefore no commercial disincentive to respond to an Emergency Instruction should exist (notwithstanding a User's Grid Code obligations). We believe that should this option be implemented as an potential Alternative then it would be quite possible that a Replacement Price based upon other unaccepted Bids and/or Offers available at the time may not accurately reflect the costs incurred by a BM Unit when responding to an Emergency Instruction. Therefore a commercial disincentive may exist and as such the potential Alternative does not in our eyes better facilitate the applicable BSC objectives when considered against the original modification proposal.</p> <p>(b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>We do not support the use of a replacement price based upon an amended version of the existing Avoidable Costs provisions (as currently defined within the BSC) for compensating Parties who have delivered against an Emergency Instruction. Extending the compensation beyond the existing BSC definition of Avoidable Costs to include plant damage would in our view be inappropriate and could be seen as a replacement for plant insurance,</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>underwritten by the rest of the industry. This would not promote competition, and would not better facilitate BSC objective (c).</p> <p>Furthermore we do not believe that a Party issued with an Emergency Instruction should be able to claim lost opportunity costs associated with Trading Charges or BSCCo charges. Trading Charges include the Period BM Unit Cashflows and Daily Party Energy Imbalance Cashflows amongst others and in our eyes it would not be appropriate for speculative claims to be made regarding actions that might have been taken by either the BM Unit operator or the System Operator regarding these units had the Emergency Instruction not been issued.</p>
3	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale</p>	No	-
4	<p>Do you support the implementation approach developed by the Modification Group (see section 2.3)? Please give rationale</p>	Yes	<p>The implementation approach detailed within the Consultation Document appears for the most part realistic and achievable. One aspect of the implementation approach that may need to be considered further relates to the determination of the Avoidable Costs and the timescales in which any claim can be made. It would appear that the timescales involved for a Party to draw up a claim for Avoidable Costs may not allow for a Replacement Price to be determined in time for the initial settlement run (SF). Should an interim settlement arrangement be adopted (see point 5 below) then it is our belief that delaying the submission of such costs should not cause settlement to be impacted too severely.</p>
5	<p>Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate:</p>	b	<p>It would appear that option B would represent the interim arrangement that would have least impact upon imbalance prices. It has the advantage that it would ensure that NIV is calculated correctly regarding imbalance prices for the SF run and so ensure that the reverse imbalance price will be calculated correctly whilst limiting the impact upon the main imbalance</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
	<p>(a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)? Please give rationale</p>		<p>price. In this regard it is preferable to option C which would result in both the main and reverse imbalance prices being calculated incorrectly until the Replacement Price becomes available. Option B also has advantages over Option A as P173 was proposed originally as a way to mitigate the effect on imbalance prices seen by the one instance of an Emergency Instruction since Go-Live. Therefore if the interim settlement approach used was essentially the same as the current settlement arrangements some of the benefits we see as being brought about by P173 would be lost in the interim period.</p> <p>We believe that whichever approach is taken, due regard should be given to the rarity of Emergency Instructions and that the implementation costs of any interim arrangements should not outweigh the perceived benefits of mitigating any adverse impact on imbalance prices in the interim period. We note that the Option B interim approach would be consistent with the solution proposed for P171/P172 which has been assessed by the PSMG as part of its assessment of P171/P172.</p>
6	<p>How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?</p>		<p>We believe that ordinarily this process should not require a significant amount of time to resolve. We see the Avoidable Costs process as being one where a Party prepares a statement that outlines the <i>net</i> costs of operating the BM Unit that would not have been incurred but for the actions taken pursuant to the Emergency Instruction. We note the use of the word <i>net</i> within the BSC baseline and assume therefore that a Party would be required to submit a single figure as part of its claim. However to allow the Panel, and the Authority where it deems such intervention necessary, to determine what costs the Party had included within this figure, it should be accompanied by a description of the costs that have contributed to the net figure. Note however we do not envisage that a breakdown of these costs would be given. Then where the Panel or the Authority require any of these categories to be disregarded the Party would then have to submit a revised claim. Finally if the Panel or the Authority</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>are still uncertain as to the appropriateness of the claim them an Auditors statement may be required.</p> <p>We would envisage the last two steps of such a process to be necessary only in exceptional circumstances and not as a rule. Therefore under "normal" circumstances it is the view of NGC that a Party may prepare its initial claim for Avoidable Costs within 20 Business Days.</p> <p>We do recognise that under certain circumstances a BSC Party may be subject to more than one Emergency Instruction for a given period. Therefore in such cases we recognise that BSC Parties may need additional time to allow for the fact that multiple claims for Avoidable Costs may be prepared simultaneously. In such cases allowances would need to be built into any timetable.</p>
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	-
8	Are there any further comments on P173 that you wish to make?	No	-

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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 Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	BGT do not believe this modification proposal better facilitates the Applicable BSC Objectives. BGT has sympathy with the intentions of the proposer in respect of trying to normalise the impact on Energy Imbalance Price (EIP) by removing system actions. BGT concur with the views of the modification group that this element of the proposal better facilitates the Applicable BSC objectives. However BGT is concerned that this modification proposal moves away from the pay as bid principle. BGT acknowledge there is a precedent for non-pay as bid within the Manifest Error (ME) provisions, however this relates to errors not 'considered' instructions. BGT believe that the price submitted by the registrant is reflective of the risks of being BOAd off and therefore it is appropriate to pay the registrant the submitted Bid Offer Price (BOP). Parties not being paid as bid could have a detrimental impact on competition in the supply and generation of electricity.

Q	Question	Response Error! Bookmark not defined.	Rationale
			BGT does not believe P173 will have a negative or positive impact on Applicable objective (b). BGT believe the Grid Code obligations on Parties to take appropriate action in response to an emergency instruction will be unaffected by this modification proposal. Similarly BGT does not agree with the view that removing the payment of high priced Bids or Offers will encourage the System Operator (SO) to issue more Emergency Instructions (EI). The SO is constrained by the Grid Code in respect of issuing EI and BGT have no reason to believe Approval of P173 will impact upon those constraints.
2.	<p>Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification:</p> <p>(a) Replacement Price Based on other Bids and Offers Available?</p> <p>(b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>Please give rationale and state objective(s)</p>	<p>(a) No</p> <p>(b) No</p>	<p>BGT do not believe either Alternative better facilitates the achievement of the Applicable BSC Objectives. Both alternatives propose to introduce the principle of non-pay as bid and BGT do not believe this better facilitates the Applicable objectives.</p> <p>BGT have specific concerns about Alternative (b) as it proposes to include plant damage within the calculation of avoidable costs. BGT do not believe the BSC is the correct governance arena to consider compensation for plant damage. BGT also have concerns that including a compensation arrangement for generation means that the demand side of the market will be required to underwrite the generation side of the market. BGT do not believe this better facilitates competition as it introduces a cross subsidy between from the supply side of the market and generation.</p>
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale</p>	No	
4.	<p>Do you support the implementation approach developed by the Modification Group (see section 2.3)?</p> <p>Please give rationale</p>	Yes/No	BGT agrees with the process that has been developed but BGT cannot support the implementation approach until certain decisions have been made in respect of the inputs to the approach. This includes which option is chosen in respect of the BOA details fed into settlements in the interim

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>period prior to the replacement price being calculated. The second area of concern is with the definition of avoidable costs and whether plant damage is included within the calculation or not.</p>
5.	<p>Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate:</p> <p>(a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)?</p> <p>Please give rationale</p>	A	<p>BGT has a preference for option A. Option A allows the Bid Offer Acceptance (BOA) to be fed into settlements at the prevailing price. This will clearly overstate Parties energy indebtedness, however this will be temporary and can be managed via the material doubt guidelines. The credit calculation process is there to protect BSC Parties from being exposed to a bad debt and BGT believes this option provides the best protection.</p> <p>Option B will understate all Parties liabilities as it feeds the volume into the settlement process with a zero price. Dependent upon the replacement price this could result in a significant understatement of a Party's energy indebtedness, which could result in BSC Parties being exposed to a bad debt.</p> <p>BGT do not believe Option C is a viable alternative. Option C will understate Parties energy indebtedness whilst also impacting on the calculation of market length. Failure to include the BOA volume in settlements until the replacement price has been calculated will impact on NIV tagging and may when entered into settlement flip the market length. As the volume of the acceptance will remain unchanged, the BOA should be included in settlements within the timescales specified for all other BOAs. This will ensure market length is correctly reported as soon as possible and parties have an element of certainty in respect of whether System Sell Price (SSP) or System Buy Price (SBP) is the main or reverse price.</p>
6.	<p>How much time do you believe a Party would reasonably require establishing the costs incurred through compliance with Emergency Instruction?</p>		<p>The length of time required to establish the avoidable costs is dependent upon the definition of avoidable costs. If the definition, is as currently described within the BSC then BGT believe a Party should be able to</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			establish these costs within 2 to 3 weeks. If avoidable costs are changed to incorporate plant damage the lead-time could be significantly longer.
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P173 that you wish to make?	No	

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Please send your responses by **12:00 Midday on Tuesday 9 November 2004** to modification.consultations@elexon.co.uk and please entitle your email 'P173 **Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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P173 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>Keith Munday</i>
No. of Parties Represented	<i>1</i>
Parties Represented	<i>BizzEnergy</i>
No. of Non Parties Represented	<i>0</i>
Non Parties represented	
Role of Respondent	<i>Supplier</i>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
1.	Do you believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes /	
2.	Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification: (a) Replacement Price Based on other Bids and Offers Available? (b) Replacement Price Based on Amended version of Avoidable Costs? Please give rationale and state objective(s)	(a) Yes / No (b) Yes / No	

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
3.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes / No	
4.	Do you support the implementation approach developed by the Modification Group (see section 2.3)? Please give rationale	Yes / No	
5.	Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate: (a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)? Please give rationale	a/b/c/d	
6.	How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?		

Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes / No	P173 is not retrospective. Due to the materiality of the Damhead Creek incident and potential other incidents prior to implementation of any mods to address this general defect, a retrospective element either P171 or alternate needs to be developed. The major element of the materiality of the defect is the relative ability of different parties to absorb the impact of such an event. This differs depending on size of company and degree of generation within the company due to the smearing effects on RCRC. As it differentially disadvantages small independent suppliers it has a net effect of distorting competition and therefore needs to be removed.
8.	Are there any further comments on P173 that you wish to make?	Yes / No	Due to not operating in the imbalance market Bizz does not have strong views on the relative merits of any solution. We are concerned and wish to see the removal of any potential for non energy balancing issues to impact imbalance prices.

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P173 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

Modification Proposal P173 'Revised Settlement Arrangements for Emergency Instructions'

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>Martin Mate</i>
No. of Parties Represented	
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 believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	The fact that an instruction is issued for emergency purposes on the transmission system does not mean that a party should not be entitled to reasonable reward or, as a minimum, reasonable compensation for the action it performs at the System Operator's request. Reasonable reward or compensation for the affected party is not necessarily related to avoidable costs as defined under the BSC; prevailing energy market prices or potential alternative bid-offer prices. We do not consider that recovery of 'Avoidable Costs' as defined under the BSC constitutes reasonable compensation, and therefore the proposal to effectively limit bid-offer prices acts against market principles, not meeting BSC objective (c) to promote competition. If parties stood to lose money by responding to emergency instructions, which could become more frequent as a result of changed incentives on NGC, then ultimately either the ability to respond will reduce, affecting the ability of the system operator to meet BSC objectives (a) and (b) relating to system operation, or the costs will be hidden elsewhere, acting against BSC objective (c) relating to competition.

Q	Question	Response	Rationale
2.	<p>Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification:</p> <p>(a) Replacement Price Based on other Bids and Offers Available?</p> <p>(b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>Please give rationale and state objective(s)</p>	<p>(a) No</p> <p>(b) No</p>	<p>(a) Other BM Unit prices have no relevance to the circumstances of a particular BM Unit, and are unlikely to give correct reward or compensation, thus failing to promote BSC objective (c). However, use of such prices may give reasonable energy imbalance prices.</p> <p>(b) Prices based on a more comprehensive definition of compensation may be capable of overcoming deficiencies in the proposal over compensation to the directly affected party. However, this would not overcome the problem of potentially distorting imbalance prices with actions taken primarily for system purposes.</p>
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale</p>	Yes	Modification proposals P172 or P175 provide superior solutions for the handling of emergency instructions in a manner likely to better meet BSC objectives.
4.	<p>Do you support the implementation approach developed by the Modification Group (see section 2.3)?</p> <p>Please give rationale</p>	Yes / No	<p>Rapid communication of event details to industry is welcomed. An essentially manual process for determining substitute data outside the main settlement processes and entering it into settlement using existing manual processes seems most likely to meet BSC efficiency objective (d).</p> <p>2.3.2 suggests Un-priced volumes will be entered into settlement for the II run. We assume this refers to BSAD data relating to the instruction, entered in order to establish a good estimate of NIV, rather than a change to central systems to enable instructions to be flagged.</p>

Q	Question	Response	Rationale
5.	<p>Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate:</p> <p>(a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)?</p> <p>Please give rationale</p>	B or d	<p>With option A, parties face considerable uncertainty over eventual imbalance prices, and significant swings in cashflow may occur between SF and the subsequent run where the substitute instruction is processed.</p> <p>With option B, imbalance prices and resulting cashflows estimated at SF are likely to be closer to eventual outturn prices and flows.</p> <p>With option C, NIV will not be calculated correctly, so system direction and imbalance prices are more likely to have significant errors at SF.</p> <p>Another possibility (a variation of (b)) could be to put the volume and an approximate 'current market price' in BSAD data as soon as possible, instead of as a Bid-Offer acceptance, and revise BSAD data and Bid-offer acceptance data appropriately when final prices are agreed.</p>
6.	<p>How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?</p>		<p>Indicative costs could probably be established within about a week. Depending on the precise circumstances and the nature of costs permitted to be considered, considerably more time could be required for a comprehensive assessment and presentation. 4 weeks would cover most eventualities.</p>
7.	<p>Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?</p> <p>Please give rationale</p>	No	<p>Concerns about the incentives on the System Operator and parties in relation to Emergency Instructions if this modification were approved have been described by the modification group.</p>
8.	<p>Are there any further comments on P173 that you wish to make?</p>	No	

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P173 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:	Man Kwong Liu (SAIC Ltd)
No. of Parties Represented	6
Parties Represented	<i>Please list all Parties responding on behalf of (including the respondent company if relevant).</i> Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.; SP Transmission Ltd; SP Manweb plc.
No. of Non Parties Represented	0
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 / BSC Agent / Party Agent / other – please state ¹)</i> Supplier / Generator / Trader / Consolidator / Exemptable Generator

Q	Question	Response Error! Bookmark not defined.	Rationale
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¹ Delete as appropriate – please do not use knockout, this is to make it easier to analyse the responses

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	<p>Do you believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)</p>	No	<p>We believe that the post-event calculation process suggested under P173 would significantly complicate the settlement arrangements and would be detrimental to the achievement of Applicable BSC Objective (d) – “efficiency...”</p> <p>Any post-event adjustment requiring the judgement of a committee would cause lengthy legal argument, substantial costs and add uncertainty to the settlement arrangements. This would be detrimental to the achievement of applicable BSC Objective (c) – “promoting competition ...”</p> <p>We are concerned that under P173 the exercise of discretion/judgement by the Transmission Company may be influenced by the terms of the System Operator Incentive Scheme.</p>
2.	<p>Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification:</p> <p>(a) Replacement Price Based on other Bids and Offers Available? (b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>Please give rationale and state objective(s)</p>	<p>(a) No (b) No</p>	See our comment above.
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale</p>	No	
4.	<p>Do you support the implementation approach developed by the Modification Group (see section 2.3)? Please give rationale</p>	No	<p>See our comment in Qu 1. We believe the process is grossly complicated.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
5.	Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate: (a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)? Please give rationale	a/b/c/d	See our comment in Qu 1.
6.	How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?		See our comment in Qu 1.
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P173 that you wish to make?	No	

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P173 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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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 Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	EDF Energy is of the view that implementation of P173 would erode the principle of pay as bid. EDF Energy believes that the current baseline under the BSC for an emergency instruction is appropriate and does not believe that the case for change has been made. As P173 would pay affected Parties Avoidable Costs rather than the prevailing Bid/ Offer Price, this would erode the principle of pay as bid, and by requiring Parties to claim compensation when a price has previously been submitted via a Bid/ Offer could be viewed as detrimental to achievement of Applicable BSC Objective (c). EDF Energy has concerns with respect to Applicable BSC Objective (b), that if Emergency Instructions were not paid as bid it may create perverse incentives on the System Operator to they system with more Emergency Instructions.

Q	Question	Response	Rationale
2.	<p>Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification:</p> <p>(a) Replacement Price Based on other Bids and Offers Available?</p> <p>(b) Replacement Price Based on Amended version of Avoidable Costs?</p> <p>Please give rationale and state objective(s)</p>	<p>(a) No</p> <p>(b) No</p>	<p>EDF Energy does not agree with moving away from the principle of pay as bid in the Balancing Mechanism. Of the 2 options, option A is preferable as option B could potentially result in an affected BM Unit having to pay for responding to an Emergency Instruction.</p> <p>EDF Energy believes that emergency instructions are a last resort and could have an extreme price associated with them.</p>
3.	<p>Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?</p> <p>Please give rationale</p>	No	
4.	<p>Do you support the implementation approach developed by the Modification Group (see section 2.3)?</p> <p>Please give rationale</p>	Yes	<p>We do not support the implementation of P173, however, as the modification group has to propose a solution we request that the lowest cost solution is chosen.</p>
5.	<p>Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate:</p> <p>(a) Option A?</p> <p>(b) Option B?</p> <p>(c) Option C?</p> <p>(d) None of the above (please specify approach favoured)?</p> <p>Please give rationale</p>	A	<p>EDF Energy supports interim option A which would input the prevailing Bid/Offer Price, as we believe that this represents the least costs solution.</p>
6.	<p>How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?</p>		<p>EDF Energy believe that 3 months would be required to gather the appropriate information to establish the costs incurred through compliance with an Emergency Instruction.</p>

Q	Question	Response	Rationale
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P173 that you wish to make?	No	

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Respondent:	<i>Teesside Power Limited</i>
No. of Parties Represented	<i>1</i>
Parties Represented	<i>Teesside Power Limited (TPL)</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 believe Proposed Modification P173 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	TPL believes that in order to promote a competitive market, parties should pay (or be paid) as bid/offer.
2.	Do you believe that the two potential Alternative Modifications better facilitate the achievement of the Applicable BSC Objectives as compared to the Proposed Modification: (a) Replacement Price Based on other Bids and Offers Available? (b) Replacement Price Based on Amended version of Avoidable Costs? Please give rationale and state objective(s)	(a) No (b) No	In addition to the response to question (1), TPL is concerned that Alternative Proposal (a) may disadvantage the lead party of the affected BM Unit. The lead party would have no control over the price they would be paid as the replacement price would not reflect actual costs incurred.

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
4.	Do you support the implementation approach developed by the Modification Group (see section 2.3)? Please give rationale	Yes	
5.	Which of the approaches (see section 2.3.3) identified for conducting Settlement in the interim period during which the Avoidable Costs are established do you consider the most appropriate: (a) Option A? (b) Option B? (c) Option C? (d) None of the above (please specify approach favoured)? Please give rationale	B	
6.	How much time do you believe a Party would reasonably require to establish the costs incurred through compliance with Emergency Instruction?		2 months
7.	Does P173 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
8.	Are there any further comments on P173 that you wish to make?	No	

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Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

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