

Responses from P140 Assessment Consultation

Consultation issued 03/11/03

Representations were received from the following parties:

No.	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Powergen	P140_ASS_001	14	0
2.	EDF Trading Ltd	P140_ASS_002	2	0
3.	EDF Energy	P140_ASS_003	9	0
4.	Scottish Power	P140_ASS_004	6	0
5.	British Gas Trading	P140_ASS_005	5	0
6.	Entergy-Koch	P140_ASS_006	1	0

P140_ASS_001 – Powergen

Respondent:	Powergen
No. of BSC Parties Represented	14
BSC Parties Represented	Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe 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 Limited
No. of Non BSC Parties Represented	-
Non BSC Parties represented	-
Role of Respondent	Supplier, Generator, Trader & Exemptable Generator.

Q	Question	Response	Rationale
1.	Do you believe Interconnector Users are disproportionately disadvantaged by the current CEI calculation? <i>Please give rationale</i>	Yes	Simply as a result of the volatility of their volumes, the CEI calculation generally appears to perform less accurately for interconnector user BMUs than for more conventional BMUs.
2.	Do you support the use of a different methodology for calculating CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	
3.	Do you support the use of Period FPN as the CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	The use of FPNs would appear to be a sensible way forward as long as FPNs continue to be used as the interconnector equivalent of metered volumes.
4.	Do you believe there are any alternative approaches not considered by the group that might better resolve the perceived defect? <i>Please give rationale</i>	No	

Q	Question	Response	Rationale
5.	Do you believe P140 would better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i>	Yes	<p>Providing for more accurate credit cover requirements from interconnector Users will result in benefits for all Parties as well as those using the interconnectors. Clearly, an over-calculation of indebtedness can be seen as a potential barrier to entry for interconnector users. Additionally, all parties are exposed if interconnector users are providing far too little credit. Therefore it could be argued that objective c) and d) are better facilitated.</p> <p>Objective d) is probably offset to some extent by the cost of implementation.</p>

P140_ASS_002 – EDF Trading Ltd

Respondent:	EDF Trading Ltd
No. of BSC Parties Represented	2
BSC Parties Represented	EDF Trading Ltd and EdF (Generation)
No. of Non BSC Parties Represented	None
Non BSC Parties represented	N/a
Role of Respondent	Trader/ Generator

Q	Question	Response	Rationale
1.	Do you believe Interconnector Users are disproportionately disadvantaged by the current CEI calculation? <i>Please give rationale</i>	Yes	The current CEI calculation can result in significant positive or negative magnitudes of CEI that are disproportionate to the risks the Interconnector User poses to the market. This can therefore disproportionately disadvantage Interconnector Users when they have to pay large sums of Credit Cover and at sometimes short notice. It can also disadvantage the rest of the market when the CEI calculation determines a negative figure.
2.	Do you support the use of a different methodology for calculating CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	Absolutely, the results of the analysis out show that the historical data can not be reliably used to accurately predict the performance of the interconnector BM Units. A different methodology for calculating CAQCE has to be found.

Q	Question	Response	Rationale
3.	Do you support the use of Period FPN as the CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	<p>The use of Period FPN as the CAQCE for Interconnector BM Units appears to be a good way of using trading data for Interconnector Users, that bears a good correlation to the risks posed to the market.</p> <p>Unlike other BMUs, Interconnector BMUs have to submit their 'FPN' data significantly in advance of Gate Closure and they are committed to those volumes ie they must deliver. They are monitored by the Interconnector Administrator and the only reason for the DMVs being different from the FPNs is for reasons of unavailability of the interconnector. Therefore, the FPN data is a reasonable and accurate measure for the interconnector BM Units in the CEI calculation.</p>
4.	Do you believe there are any alternative approaches not considered by the group that might better resolve the perceived defect? <i>Please give rationale</i>	No	
5.	Do you believe P140 would better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i>	Yes	<p>P140 will better facilitate the achievement of Applicable BSC Objective (c) "Promoting effective competition..."</p> <p>Reducing the risk of excessive credit cover on Interconnector Users will help reduce the barriers to new market entrants which must facilitate more effective and efficient competition in the market Moreover, the use of more accurate figures will improve the overall accuracy of the calculation of Energy Indebtedness will improve and will lead to better risk protection for all BSC Parties.</p>

P140_ASS_003 – EDF Energy

Respondent:	EDF Energy
No. of BSC Parties Represented	9
BSC Parties Represented	EDF Energy plc, London Electricity plc, Jade Power Generation Ltd, Sutton Bridge Power Ltd, West Burton Power, London Power Networks plc, EPN Distribution Ltd, Seeboard Power Networks plc, Seeboard Energy Ltd,
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	Supplier / Generator / Party Agent / Distribution Business

Q	Question	Response	Rationale
1.	Do you believe Interconnector Users are disproportionately disadvantaged by the current CEI calculation? <i>Please give rationale</i>	Yes	EDF Energy believe that the current CEI calculation can result in significant magnitudes of CEI, being either positive or negative, and that this does disproportionately disadvantage Interconnector Users. The analysis that was carried out shows that the historical data will not accurately predict that future and present performance of the interconnector BM Units.
2.	Do you support the use of a different methodology for calculating CAQCE for Interconnector BM Units?	Yes	EDF Energy does support the use of a different methodology for calculating CAQCE.

Q	Question	Response	Rationale
3.	Do you support the use of Period FPN as the CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	EDF Energy supports the use of Period FPN as the CAQCE for Interconnector BM Units. The FPN is an accurate measure as it is used for the deemed metered volumes for the interconnector BM Units. Through using these more accurate figures, the overall accuracy of the calculation of Energy Indebtedness will improve, which will lead to better risk protection for BSC Parties.
4.	Do you believe there are any alternative approaches not considered by the group that might better resolve the perceived defect? <i>Please give rationale</i>	No	
5.	Do you believe P140 would better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i>	Yes	EDF Energy believe that P140 will better facilitate the achievement of Applicable BSC Objective (c) "Promoting effective competition..." By reducing the risk of accumulating liabilities on interconnector users, this will in turn reduce the barriers to new market entrants. This will facilitate more effective and efficient competition in the market

P140_ASS_004 – Scottish Power

Respondent:	Man Kwong Liu (SAIC Ltd)
No. of BSC Parties Represented	6
BSC Parties Represented	Scottish Power UK plc; ScottishPower Energy Management Ltd.; ScottishPower Generation Ltd; ScottishPower Energy Retail Ltd.; SP Transmission Ltd; SP Manweb plc.
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1.	Do you believe Interconnector Users are disproportionately disadvantaged by the current CEI calculation? <i>Please give rationale</i>	Yes	We agree that Interconnector Users are disproportionately affected by inaccuracies in the CEI calculation due to a greater likelihood that historical performance measures will not accurately predict short term current performance for this BM Unit type.
2.	Do you support the use of a different methodology for calculating CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	As mentioned above, Interconnector users are disadvantaged. We therefore agree that there needs to be a more accurate calculation methodology. We also believe that this should be extended to all Production BMUs, as the same problem with historical CALF values vs. current trading patterns applies to generating units. FPN submitted represents Party's best estimate of BMU output and is near to real time. Production account imbalances, like Interconnector imbalances, only tend to occur due to technical failure.
3.	Do you support the use of Period FPN as the CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	FPN submitted represents Party's best estimate of BMU output and is near to real time.

Q	Question	Response	Rationale
4.	Do you believe there are any alternative approaches not considered by the group that might better resolve the perceived defect? <i>Please give rationale</i>	No	
5.	Do you believe P140 would better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i>	Yes	This Modification will result in a more accurate estimate of potential balancing charges, enabling the release of excess credit cover collateral posted with Elexon. We therefore believe P140 would better facilitate Applicable BSC Objective (c) – ‘Promoting effective competition.....’

P140_ASS_005 – British Gas Trading

Respondent:	Mark Manley
No. of BSC Parties Represented	
BSC Parties Represented	British Gas Trading
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	

Q	Question	Response	Rationale
1.	Do you believe Interconnector Users are disproportionately disadvantaged by the current CEI calculation? <i>Please give rationale</i>	No	BGT believe that Interconnectors can be disproportionately advantaged or disadvantaged by the CEI calculation. An element of the calculation, which utilises average historical data, is unrepresentative of the actions of the Interconnector for the forthcoming BSC Season. This can lead to an Interconnector Users indebtedness being under or over stated.
2.	Do you support the use of a different methodology for calculating CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	BGT do support the use of a different methodology for the calculation of Interconnector BM Units CAQCE. Based on the analysis provided the proposed methodology is much more accurate than the existing methodology. BGT support developments that more accurately reflect Parties indebtedness and thereby reduce the risks faced by the BSC community.

Q	Question	Response	Rationale
3.	<p>Do you support the use of Period FPN as the CAQCE for Interconnector BM Units? <i>Please give rationale</i></p>	Yes	<p>As this improves the accuracy of the calculation BGT are supportive of the use of the Period FPN for BM Units. This is predicated on the fact that the FPN's become the deemed-metered volumes for the interconnector in the absence of actual meter readings. There is a caveat to BGT's support of the modification, in respect of concerns about gaming opportunities. BGT believes the current process has checks in place to ensure FPN submissions are not erroneous and are in accordance with the Parties acquired capacity on the link. BGT would like confirmation that this assurance exists in respect of FPN submissions on the Interconnector.</p>
4.	<p>Do you believe there are any alternative approaches not considered by the group that might better resolve the perceived defect? <i>Please give rationale</i></p>	No	
5.	<p>Do you believe P140 would better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i></p>	Yes	<p>BGT believe P140 does better facilitate achievement of Applicable BSC Objective (c). The proposed solution will ensure that Interconnector Users energy indebtedness is more accurately calculated. This will ensure Interconnector Users will be required to post a representative amount of credit cover. This should reduce barriers to entry and thereby encourage competition in the sale and generation of electricity.</p> <p>The accurate derivation of Parties energy indebtedness will also minimises the risk faced by all BSC Parties. Accurate calculation will ensure that an Interconnector Users indebtedness is not understated whilst also reducing the potential for BSC Parties to be exposed to an unrecoverable debt. For Parties with Interconnector BM Units it will also remove the potential for an erroneous positive indebtedness to be utilised to offset a Parties negative indebtedness for its portfolio credit position.</p>

P140_ASS_006 – Entergy-Koch Trading Europe Ltd

Respondent:	<i>Adam Cooper</i>
No. of BSC Parties Represented	<i>1</i>
BSC Parties Represented	<i>Entergy-Koch Trading Europe Ltd</i>
No. of Non BSC Parties Represented	
Non BSC Parties represented	
Role of Respondent	<i>Trader</i>

Q	Question	Response	Rationale
1.	Do you believe Interconnector Users are disproportionately disadvantaged by the current CEI calculation? <i>Please give rationale</i>	Yes	The analysis seems to indicate that there may be times when Interconnector users are disadvantaged by the current credit arrangements. Equally, other participants may be disadvantaged when the credit arrangements underestimate the level of exposure.
2.	Do you support the use of a different methodology for calculating CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	The different methodology appears to result in a significant improvement in the calculation of CAQCE. This should better facilitate the achievement of the relevant objectives through improving credit arrangements that will decrease overall risks. Lower risks will reduce the barriers to entry and allow more competition to emerge between parties.
3.	Do you support the use of Period FPN as the CAQCE for Interconnector BM Units? <i>Please give rationale</i>	Yes	See the answer above.
4.	Do you believe there are any alternative approaches not considered by the group that might better resolve the perceived defect? <i>Please give rationale</i>	No	The proposal seems to be the most practical approach to solving the anomaly in the current arrangements.

Q	Question	Response	Rationale
5.	Do you believe P140 would better facilitate achievement of the Applicable BSC Objectives <i>Please give rationale and state objective(s)</i>	Yes	The proposal will improve BSC Objective (c) as better-targeted credit arrangements will result in lower risks for individual parties and all system users. The level of risk is an important element in the decision to participate in a market, as is the efficient application of credit rules that are not discriminatory. Greater levels of participation should lead to increased competition to the benefit of end customers.