

Responses from P140 Draft Report Consultation

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	Powergen	P140_DR_001	14	0
2.	EDF Trading Ltd	P140_DR_002	2	0
3.	EDF Energy	P140_DR_003	9	0
4.	Scottish Power UK	P140_DR_004	6	0
5.	Midlands Electricity	P140_DR_005	1	0
6.	Scottish and Southern Energy	P140_DR_006	5	0
7.	British Gas Trading	P140_DR_007	1	0
8.	National Grid	P140_DR_008	1	0
9.	British Energy Power & Energy Trading Ltd	P140_DR_009	3	0

P140_DR_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 agree with the Panel’s views on P140 and the provisional recommendation to the Authority contained in the draft Modification Report that P140 should be made? Please give rationale.	Yes	On balance, but we still feel that the quoted costs appear high.
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? Please give rationale.	Yes	
3	Do you agree with the Panel’s provisional recommendation concerning the Implementation Date for P140? Please give rationale.	Yes	
4	Are there any further comments on P140 that you wish to make?	No	

P140_DR_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	N/A
Non BSC Parties represented	N/A
Role of Respondent	Trader and Generator

Q	Question	Response	Rationale
1	Do you agree with the Panel’s views on P140 and the provisional recommendation to the Authority contained in the draft Modification Report that P140 should be made? Please give rationale.	Yes	The revised credit cover methodology will provide meaningful and more accurate information on which Interconnector Users’ credit cover amounts can be calculated. This will be advantageous to the market as a whole, as well as to individual Interconnector Users, as the credit cover requirement will be reflective of the risk that those parties pose to the market.

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? Please give rationale.	Yes	The legal text as provided correctly allows for the use of FPN data instead of CAQCE.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P140? Please give rationale.	Yes	EDFT would prefer an earlier date for implementation, but understand the constraints.
4	Are there any further comments on P140 that you wish to make?	No	

P140_DR_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
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Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P140 and the provisional recommendation to the Authority contained in the draft Modification Report that P140 should be made? Please give rationale.	Yes	EDF Energy believes 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, facilitating more effective and efficient competition in the market The analysis that was carried out shows that the use of Period FPN, rather than the CAQCE for Interconnector BM Units, is a far more accurate measure since it is used for the deemed metered volumes. 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. EDF Energy therefore agrees with the Panel's recommendations within the report that the modification should be implemented.
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? Please give rationale.	Yes	EDF Energy agrees that the draft legal text within the modification report includes the appropriate changes to Section M and Section Q of the BSC and that this new legal text addresses the issues that were identified in the modification proposal.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P140? Please give rationale.	Yes	EDF Energy agrees with the Panel's recommendation for the implementation date of P140. The suggested implementation date is aligned with the CVA releases that help mitigate the costs.
4	Are there any further comments on P140 that you wish to make?	No	

P140_DR_004 – Scottish Power UK

Respondent:	John W Russell
No. of BSC Parties Represented	6
BSC Parties Represented	Scottish Power UK plc; ScottishPower Energy Management Ltd; Scottish Power Generation Ltd; ScottishPower Energy Retail Ltd; SP transmission Ltd; SP Manweb PLC.).
No. of Non BSC Parties Represented	0
Non BSC Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P140 and the provisional recommendation to the Authority contained in the draft Modification Report that P140 should be made? Please give rationale.	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.....'
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? Please give rationale.	Yes	We agree that the drafting would appear to be appropriate.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P140? Please give rationale.	Yes	We agree that the implementation date is appropriate.
4	Are there any further comments on P140 that you wish to make?	No	

P140_DR_005 – Midlands Electricity

Midlands Electricity (Formerly Aquila Networks) would like to return a response of 'No Comment' to P140 Consultation on Draft Modification Report.

Regards

Sue Pritchard
DSO/DCG Manager

P140_DR_006 – Scottish and Southern Energy

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

Further to your note of 18th February 2004, and the four questions listed in the Modification Report consultation for P140, we have the following comments to make:-

Q1 Do you agree with the Panel's views on P140 and the provisional recommendation to the Authority contained in the draft Modification Report that P140 should be made? Please give rationale.

Yes, we agree with the proposed BSC Panel recommendation to the Authority that the Proposed Modification Proposal P140 should be made.

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.

It appears to.

Q3 Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P140? Please give rationale.

If the Modification Proposal P140 is approved, we agree with the proposed BSC Panel recommendation on the timing for the Implementation Date, as outlined in the Modification Report.

Q4 Are there any further comments on P140 that you wish to make?

Nothing further at this time.

Regards
Garth Graham
Scottish and Southern Energy plc

P140_DR_007 – British Gas Trading

Dear Sirs,

Re: Modification Proposal P140 – Revised Credit Cover methodology for Interconnector BM Units

Thank you for the opportunity of responding to this draft modification report considering Modification Proposal P140. British Gas Trading (BGT) agrees with the Panel's provisional recommendation that P140 should be made.

BGT believes the BSC should require Parties to post an amount of credit cover that is representative of their estimated trading charge liability. BGT does not believe that is true of the current calculation for Interconnector BM Units. The effect of the miscalculation could have a considerable impact and significantly increase the risks faced by BSC Parties. This is due to the process detailed within the BSC for recouping bad debts. The bad debt is smeared across all Trading Parties on the basis of the Default Shares. This smearing effect could cause distortion and negatively impact competition in the supply and generation of electricity.

The current methodology can also result in Parties lodging too much or insufficient credit cover to meet their Trading Charges. This is borne out by the peak negative and positive energy indebtedness figures presented in the draft modification report for Interconnector Users. The proposed solution increases the accuracy of the calculation significantly and will help to ensure Parties post an appropriate level of credit cover.

BGT believes the proposed solution better facilitates Applicable BSC Objective (c), improving competition in the generation and supply of electricity. Firstly, the modification reduces the likelihood and the scale of a bad debt being smeared across BSC Parties in accordance with Parties Default Shares. This addresses the potential distortionary effect and thereby better facilitates competition in the generation and supply of electricity. Secondly, the proposed solution should ensure Parties lodge a more appropriate level of credit cover and this could remove a potential barrier to entry as Interconnector Users will no longer be required to lodge excessive levels of credit cover.

BGT agrees with the proposed implementation dates as detailed in the draft modification report and concur with the view expressed by 1 Panel member that this should be incorporated as part of a scheduled release.

Yours faithfully

Mark Manley
Contract Manager

P140_DR_008 – National Grid

Respondent:	Clare Talbot
No. of BSC Parties Represented	One
BSC Parties Represented	National Grid
No. of Non BSC Parties Represented	None
Non BSC Parties represented	None
Role of Respondent	BSC Party

Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P140 and the provisional recommendation to the Authority contained in the draft Modification Report that P140 should be made? Please give rationale.	Yes	We support the Panel's provisional recommendation that P140 should be made and believe that the modification provides a more accurate solution for Interconnector Users by utilising latest available information as the basis for credit calculation.
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? Please give rationale.	Yes	We agree with the Panel that the draft legal text will give effect to the solution identified in the Modification Report.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P140? Please give rationale.	Yes	We support the proposed implementation date to introduce the necessary changes required to deliver P140.
4	Are there any further comments on P140 that you wish to make?	No	

P140_DR_009 – British Energy Power & Energy Trading Ltd

Respondent:	Martin Mate
No. of BSC Parties Represented	3
BSC Parties Represented	British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd
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
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Q	Question	Response	Rationale
1	Do you agree with the Panel's views on P140 and the provisional recommendation to the Authority contained in the draft Modification Report that P140 should be made? Please give rationale.	No	Please avoid asking two or more questions in one. We agree with the Panel that the proposal in the draft modification report will improve the accuracy of indebtedness monitoring for interconnector users, by reducing the extent of both under and over estimation. However, since the current method sometimes overestimates indebtedness, the proposal will not always give a "A reduction in the risk to the market of Interconnector Users accumulating unsecured liabilities for Trading Charges;" as suggested, since the credit requirements may sometimes be reduced. Also, since the current method is reported to frequently underestimate indebtedness, the proposal will not always give "A reduction in barriers to entry for potential Interconnector Users;" as suggested, since the credit requirements may sometimes be increased. While the proposal does represent an improvement in monitoring for a particular class of participant, the cost is at a level which makes the overall benefit doubtful (see further comments below).
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? Please give rationale.		Proposed legal text refers to FPN_{ij} = Period FPN, calculation of which is defined in T4.3.1, and indicates that ECVAAs will perform this calculation using data provided to it by the TC. This appears to duplicate data transferred to and calculations performed by SAA, as well as data transferred to BMRS, and entrenches in the BSC an apparently inefficient duplication of flows and calculation.
3	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P140? Please give rationale.	Yes / No	Any implementation of this proposal should be made at a date which will minimise the cost, ie. not as a stand-alone modification. The modification report states that 'ELEXON has confirmed that the suggested Implementation Dates are aligned with scheduled CVA Releases.' The proposal should only be implemented in a 'Release' containing other system modifications with which the fixed implementation costs of some £0.5m can be shared.
4	Are there any further comments on P140 that you wish to make?	Yes	See below.

We suspect that most interconnector users have access to credit at a cost no more than 5%, with most large players having access to much lower rates, say 1%. The maximum recent over-provision of credit, for a short period, is indicated to be £6.2m. Eliminating this over-provision would save **at most** between £62k and £300k/annum for those providing it. Most parties using the interconnector are active in other areas of the market, where the credit indebtedness provisions are also approximate, and probably choose to post sufficient credit in a consolidated form to avoid credit defaults arising from shortcomings of the credit calculations overall. Over-provision for interconnector BM Units is capable of covering other parts of a party's portfolio. We do not consider the level of real saving justifies the cost, which could be as much as £900k (stand-alone) or between £300k and £900k (incremental cost + share of fixed costs). BSC Objective (d) (cost efficiency) is not met.

Additionally, it should be noted that the credit indebtedness calculation is approximate for all parties, and probably results in under or over provision in many cases. Improving the approximation just for interconnectors can be considered not to meet BSC Objective (c), because it discriminates in favour of interconnectors. A proposal which improves the accuracy of the credit indebtedness calculation for all parties might be more successful in meeting both BSC objectives (b) and (c).

At the level of cost suggested, we would expect measures with benefit for a wider range of participants, for example the use of real metered data soon after it is collected or, in the case of interconnectors, determined. CVA metering is available within hours of the end of a settlement day, and its use in credit checking would allow accurate estimates of indebtedness associated with most generators and directly connected sites, as well as permitting estimates of supplier volumes as a proportion of measured GSP Group take. The fundamental problem with monitoring credit is inability to obtain accurate metered flows quickly, but this is largely an artifice of the central systems which do not facilitate rapid collection or accurate estimation although it is technically feasible. Tweaks to the arrangements to avoid the cost of more fundamental change may meet BSC objectives, but this modification appears to be a very expensive tweak for the benefit of a relatively small subset of participants.