

Responses from P109 Assessment Consultation

Consultation issued 14 January 2003

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	ConocoPhillips	P109_ASS_001	2	
2.	Coryton Energy Co Ltd, Rocksavage Power Co Ltd, Spalding Energy Co Ltd, InterGen Energy Trading and Shipping Ltd	P109_ASS_002	4	
3.	Innogy	P109_ASS_003	9	
4.	EdF Trading Ltd and EdF Generation	P109_ASS_004	2	
5.	First Hydro Company	P109_ASS_005	2	
6.	Aquila Networks	P109_ASS_006	1	
7.	AES Drax	P109_ASS_007	1	
8.	Powergen	P109_ASS_008	15	
9.	British Energy	P109_ASS_009	3	
10.	NGC	P109_ASS_010	1	
11.	British Gas Trading	P109_ASS_011	1	
12.	Scottish Power	P109_ASS_012	4	
13.	Scottish and Southern	P109_ASS_013	4	
14.	Teeside Power Ltd	P109_ASS_014	1	
15.	LE Group	P109_ASS_015	4	

P109_ASS_001 – ConocoPhillips

Name of Respondent:	<i>Rekha Patel</i>
BSC Party:	<i>Yes</i>
No. of BSC Parties represented:	<i>2</i>
No. of Non-BSC Parties represented:	
Responding on behalf of:	<i>ConocoPhillips UK Limited and Immingham CHP</i>
Role of respondent:	<i>Trader and Generator</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	Yes	The implementation of modification proposal P109, 'A Hedging Scheme for Changes to TLF in Section T of the Code' would better achieve Applicable BSC objective C, through protecting existing market participants from the gains and losses upon sunk investment, created through the TLF becoming non-zero. New entrants would also benefit from a stable investment environment by locking-in a TLF over a 15-year period.
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	Yes	As a consequence of P109 creating a stable investment environment, a direct benefit is a lower cost of capital. The cost of capital is dependent upon volatility that P109 reduces, through creating certainty and stability. Without the hedging scheme there is the possibility of new entrant not being able to secure the required finance at a reasonable rate, hence preventing its entry into the market.
3.	What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any		It is difficult to state the impact P109 would have upon internal systems and processes, without being aware of the environment that the scheme

	changes that such an impact would require?		is being implemented within, a P75 or P82.
4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		<p>The sample period from which the F-factor is calculated should be based on a BSC season of the settlement period in question. A BSC season shall allow a generating plant to accommodate the seasonal variations in demand throughout the year.</p>
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • a) the definition of what constitutes a 'new' BM Unit? • b) the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • c) the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • d) that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • e) that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		<p>5 a) The use of BM Unit registration as a means of defining of what constitutes a 'new' BM Unit is satisfactory.</p> <p>b) The use of CALF values as default F-factors for new BM Units requires further debate. At present, the initial CALF values for a new BM Unit is dependent upon the type of plant. After 3 months of operating, real data is then used to create the next seasonal CALF value. However a new plant shall undertake its commissioning process for 2 years, during this time it may incur difficulties that shall influence its CALF values and hence the F-factor it is allocated. For a new BM Unit the F-factor should be based upon the third year of it operating for it to reflect the real generating potential of the plant.</p> <p>c) It is vital to include 'new' CVA registered BM Units within the P109 proposal. The option for a new entrant being able to lock-in the TLF is important towards securing capital. Without the provision of the hedging scheme being available to new entrants, barriers to entry are created, thus preventing new competition arising.</p>

			<p>d) It is appropriate for the ALF for new BM Units to be the average zonal TLF for the 12 months prior to the BM Unit registration.</p> <p>e) Rather than the BM Unit gaining 15 years of the hedging scheme, an alternative suggestion is that the scheme is implemented for 15 years. New BM Unit are only entitled to the remaining years of the 15-year period, at the time of entry hence BM registration.</p>
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>		<p>As a consequence of the F-factor being dependent upon the CALF values for new BM Units, a provision of allowing the Panel to exercise its discretion is necessary.</p>
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 		<p>The different treatments of BM Units are appropriate. The modification group debated the differences, particularly regarding CVA and SVA.</p>
8.	<p>Should 'F-factors' be tradable?</p>		<p>The trade-ability of the F-factor needs further discussion within the modification group. The concept of trading the F-factor has not been fully debated and therefore it is difficult to conclude support or rejection of the idea.</p>
9.	<p>Any other comments?</p>		

P102_ASS_002 – Coryton Energy Co Ltd, Rocksavage Power Co Ltd, Spalding Energy Co Ltd, InterGen Energy Trading and Shipping Ltd

Name of Respondent:	Chris Ridgway
BSC Party:	Yes
No. of BSC Parties represented:	4
No. of Non-BSC Parties represented:	0
Responding on behalf of:	Coryton Energy Co Ltd, Rocksavage Power Co Ltd, Spalding Energy Co Ltd, InterGen Energy Trading and Shipping Ltd.
Role of respondent:	Generator

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	Yes	P109 better facilitates Applicable BSC Objective c in that such a hedging scheme promotes effective competition by preventing big windfalls or losers as a result of the introduction of P82.
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	Yes	Yes. It would assist in project financing by removing some of the uncertainty which has been prevalent since the modifications suggesting the introduction of non-zero TLF's have been proposed. Higher certainty will reduce the cost of capital.
3.	What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?		Minimal impact in terms of systems and processes. Such changes will be required due to the introduction of any mod which results in non-zero TLF's. This mod would result in a minor incremental change to our new business solution.
4.	Which of the following should be the sample period from which half-hourly F-factors are calculated:		A year is a pragmatic sample period. Shorter periods may be heavily influenced by plant outages or market movements.

	<ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		<p>Yes apart from the fact that new BMU's should only be covered until 15 years after the P109 becomes effective.</p>
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>		<p>No, the Panel should have a right to exercise discretion. Mechanistic processes can be highly unrepresentative (e.g. the current CALF methodology) and can be grossly unfair if the Panel cannot exercise discretion.</p>

7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 		No comments
8.	Should 'F-factors' be tradable?		No. Such a scheme would require unnecessary and costly administration by Central Systems which would be passed on as costs to all participants.
9.	Any other comments?		No other comments.

P109_ASS_003 – Innogy

Name of Respondent:	<i>Name: Innogy plc</i>
BSC Party:	Yes
No. of BSC Parties represented:	9
No. of Non-BSC Parties represented:	0
Responding on behalf of:	<i>Please list all Parties responding on behalf of (including the respondent company if relevant): Innogy plc, Innogy Cogen Limited, Innogy Cogen Trading Limited, Npower Limited, Npower Direct Limited, Npower Northern Limited, Npower Northern Supply Limited, Npower Yorkshire Limited, Npower Yorkshire Supply Limited.</i>
Role of respondent:	<i>(Supplier/Generator/ Trader / Consolidator / etc – please state): Supplier/Generator/ Trader / Consolidator</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	No	P109 will not better facilitate Objective C of the BSC relating to “promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity”. The electricity market has been aware of the potential need to introduce a zonal transmission losses scheme for a considerable time period (since the Pool scheme was proposed in 1995). Implementation of P109 would inaccurately target the costs of losses to those parties that do not create them for longer than is necessary. In addition, it would delay the efficiency benefits of any zonal scheme from reaching the appropriate market participants, perpetuate the existing cross subsidy, increase the cost of losses and encourage further inefficient investment.

			Furthermore, P109 does not better achieve Objective D of the BSC. It would be administratively complex and potentially expensive to implement.
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	No	General regulatory risk is already factored into investment decisions and it is almost impossible to identify any specific component associated with a zonal transmission losses scheme in the cost of capital.
3.	What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?		New processes will be required to determine whether to apply for F factors in generation and to monitor the impact of F factor volumes on TLMs and TLMOs. Parties may be encouraged to deregister BMU then re register as a new BMU to change F factors and thus exposure to TLMs. In addition, such changes have a consequent impact on costs both for the individual party and for all existing parties through TLMO adjustments.
4.	Which of the following should be the sample period from which half-hourly F-factors are calculated: <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? Please explain your answer.		This question illustrates one of the fundamental problems associated with setting f factors. An historic F factor is always likely to be inaccurate resulting in an over or under recovery of the F volume, contributing to the general inefficiency of the scheme. Since the intent of the proposal is to provide protection against zonal factors in each half-hour, parties will require a hedge that closely reflects the anticipated volume of energy in that settlement period. Consequently, the F factor volume should be set from a sample of settlement periods that closely resemble the relevant settlement period. This could be an average value from the settlement period in preceding month or an average value for the settlement period from the same month in the last year.
5.	Do you support the following treatment of 'new' BM Units established by the Modification Group:		We do not support the option for new CVA registered BM units to participate in the scheme. The ability for a new entrant to "lock in" to an F

	<ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		<p>factor has the potential to increase risk for parties that have already opted out of F factor hedging. In effect, the new entrant will be insulated from the effects on losses that occur as a result of new entry. This is also inconsistent with the aims of the zonal losses scheme, which is to provide investment signals to new entrants.</p> <p>Furthermore, since investment decisions of new entrants would be made in the light of ongoing regulatory risk (including the potential for a zonal losses scheme) there is no logic in affording protection of a hedging scheme over 15 years.</p> <p>However, if new CVA BM units are allowed to participate, then there is little alternative to utilising CALF type factors with an historic loss factor though it should be noted that this approach would, by definition, be an inaccurate method of defining the F factor volume.</p> <p>We note that parties may be encouraged to de register BM units and re register the same BM units as "new" BM units in order to change F factors and influence TLMs for their own BM units and for all BM units in the market.</p>
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>		<p>The process for setting F factors should be largely mechanistic, though it may be appropriate to allow for a dispute process in the context of a manifest error in setting the factor.</p>
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? 		<p>Since under P109 CVA BM units have the option to adopt F factors the only way the proposal can be implemented is if interconnector, SVA registered and CVA registered BM units are treated differently. The limitations of SVA metering and interconnector administration means that there is no practical means for providing an option for existing or new SVA</p>

	<ul style="list-style-type: none">• CVA-registered BM Units?		registered BM units to enter the scheme.
8.	Should 'F-factors' be tradable?		No.
9.	Any other comments?		

P109_ASS_004 – EdF Trading Ltd and EdF Generation

Please find attached a specific comment on P109 made on behalf of EdF Trading Ltd and EdF (Generation). It is related to the treatment of Interconnector Users and is of considerable concern as currently proposed. We ask that the Modification Group reconsiders this particular aspect.

Name of Respondent:	<i>Name Steve Drummond</i>
BSC Party:	<i>Yes</i>
No. of BSC Parties represented:	<i>Two</i>
No. of Non-BSC Parties represented:	
Responding on behalf of:	<i>EdF Trading Ltd and EdF (Generation)</i>
Role of respondent:	<i>Trader and Generator</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	Yes/No	Not Addressed
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	Yes/No	Not Addressed
3.	What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?		Not Addressed
4.	Which of the following should be the sample period from which		Not Addressed

	<p>half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		Not Addressed
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p>		Not Addressed

	Please explain your answer.		
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 	NO	<p>Whilst we agree that if P109 is implemented there should be an 'opt-in' facility for Interconnector BM Units, we most definitely do not agree that the decision should be undertaken by the Interconnector Administrator. Such a decision can only be made by the individual Interconnector Users. The TLFs will be applied to each Interconnector User's volume and, as such, each User must be able to make it's own decision as to the commercial consequences in its own case. The Interconnector Administrator has no locus in this respect and the BSC must not be changed such that the IA can have a direct commercial impact on the Interconnector Users' trading activity. The statement therefore in Section 6 that the proposed approach is 'sensible' is disputed and it is certainly not 'a minor issue' as claimed. As proposed, the modification cannot have our support.</p>
8.	Should 'F-factors' be tradable?		
9.	Any other comments?		

P109_ASS_005 – First Hydro Company

Name of Respondent:	<i>Name First Hydro Company</i>
BSC Party:	<i>Yes</i>
No. of BSC Parties represented:	<i>2</i>
No. of Non-BSC Parties represented:	<i>0</i>
Responding on behalf of:	<i>First Hydro Company, Edison First Power</i>
Role of respondent:	<i>Generator</i>

Q	Question	Response	Rationale
1.	<p>Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.</p>	No	<p>EME does not believe that the modification better facilitates the BSC objectives compared to the P82 inclusive BSC baseline. EME believes that BSC objectives (b) and (c) are best met by introducing a zonal loss scheme as soon as possible. Any hedging scheme will dilute the benefits of a zonal loss scheme and therefore does not better meet these objectives.</p> <p>EME does not believe that objective (d) is better met by the modification. The scheme as described is complex. In order to hedge effectively, participants require knowledge of all other participants F factors. This requires more complex systems than for the losses scheme without hedging and it is not clear that the benefits outweigh the costs.</p> <p>In addition, it appears that the TLMs in a half hour will also depend upon the effectiveness of the F factors at hedging in that particular half hour. This may lead to some half-hourly volatility in the TLMs for all</p>

			<p>participants, which reduces the effectiveness of hedging. This would lead to increased risks and costs.</p> <p>It is not clear that F factors provide an effective hedging mechanism as they are assigned on an individual BMU basis according to history. However, historic usage takes no account of the flexible way in which many participants operate their portfolios. This flexibility includes mothballing units for a period of time or taking outages at different times of the year in response to market signals. This flexibility improves the efficiency of the system and any signal to be less flexible in order to hedge losses is detrimental to efficiency. In addition, it is not clear how any F factor approach could be effective for peaking plant, which by its nature has unpredictable output. Peaking plant may therefore be at a disadvantage to other plant as it cannot take advantage of this scheme.</p>
2.	<p>Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.</p>		<p>As a project financed generator, we believe that this modification introduces uncertainties that would at best equal any benefit of stable TLFs. The scheme provides certainty of TLFs for participants but does not provide certainty of TLMs which are used to calculate losses. If some extra volatility in TLMs is introduced because of this scheme this extra risk may outweigh the benefits of stable TLFs and the cost of capital will remain unchanged..</p>
3.	<p>What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?</p>		<p>A substantial impact as the change would create greatly increased uncertainty on the value of TLM's compared to the P82 BSC baseline. Systems would have to be developed to capture other participants F factors, generation, consumption and TLF's so that TLM's could be calculated. We have not quantified the cost or time of changes were P109 to be implemented as we do not believe it better facilitates the BSC objectives.</p>

4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		<p>An inherent problem with the use of historic values is that any choice of F factor will not provide a perfect hedge for volume on the day. This problem becomes greater as the flexibility of the generator increases. Monthly factors do not take into account that outages move whereas a seasonal factor will tend to be wrong on every day of the season. Although the average volume over the season may be correct there will be daily imbalances which will have a cost due to the nature of imbalance prices.</p> <p>EME does not believe that enough analysis has been carried out to determine which approach is best.</p>
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		<p>The assignment of an appropriate F factor for new plant is difficult. The CALF-type approach gives F factors that are appropriate for an 'average' generator and therefore favours some types of plant over others. For example the F factor calculated in this way is more appropriate for a new CCGT than for peaking plant or intermittent generation. This could be viewed as discriminatory.</p> <p>The use of a loss factor based on the value in a zone before the new generator existed is not appropriate, as this approach favours new generation over existing generation. All existing generators have an F factor that includes their effect on the system and it is desirable that this is also the case for new generation. However, this will make any F factor scheme even more complicated.</p>
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise</p>		<p>If any F factor scheme were to be introduced the calculation should be</p>

	its discretion in this process)? Please explain your answer.		mechanistic.
7.	Is the different treatment of BM Units proposed in the following areas appropriate: <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 		
8.	Should 'F-factors' be tradable?		EME does not believe that F factors should be tradable as this would further complicate the system.
9.	Any other comments?		

P109_ASS_006 – Aquila Networks

Please find that Aquila Networks Plc response to P109 Assessment Consultation is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P109_ASS_007 – AES Drax

Name of Respondent:	<i>Melanie Wedgbury</i>
BSC Party:	<i>Yes</i>
No. of BSC Parties represented:	<i>1</i>
No. of Non-BSC Parties represented:	<i>0</i>
Responding on behalf of:	<i>AES Drax Power Ltd</i>
Role of respondent:	<i>Generator</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	Yes	P109 aims to mitigate the risk associated with a change in the TLF value; a change that will impose costs on both consumers and generators. In mitigating risk, costs will be reduced and efficiency improved. It is, therefore, believed that P109 will further BSC objective (c).
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	Yes	A reduction in risk (see Q1) will lead to a reduction in the cost of capital.
3.	What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?		The impact in terms of systems and processes is likely to be low, particularly if implemented in parallel with P82.
4.	Which of the following should be the sample period from which half-hourly F-factors are calculated:		A month of the Settlement Period in question. Despite being susceptible to fluctuations due to outages, a monthly approach will be more responsive to changes in contractual positions.

	<ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		<ul style="list-style-type: none"> • Agree with definition; • CALF methodology could be used, but Panel discretion should be minimised. However, there should be scope for an appeal once sufficient operational data has been obtained for the 'new' BM Unit; • Agree to participation. The ability to hedge mitigates risk and so lowers the cost of entry, therefore leading to efficiency. It also allows for equitable treatment across all players • The use of historic TLF for a typical generator/supplier is arbitrary. There should be scope for an appeal once sufficient operational data has been obtained for the 'new' BM Unit; • Agreed. This is consistent with the typical financing period for new developments and demonstrates equitable treatment across all players;
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>		<p>A mechanistic approach is desirable for both simplicity and certainty.</p>

7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 		<p>P109MG's considerations appear to justify different treatment of interconnector and SVA-registered BM Units.</p>
8.	<p>Should 'F-factors' be tradable?</p>		<p>Not convinced that the ability to trade F-Factors would better facilitate achievement of the Applicable BSC Objectives; it will introduce additional costs and complications.</p>
9.	<p>Any other comments?</p>		

P109_ASS_008 – Powergen

Name of Respondent:	<i>Peter Bolitho</i>
BSC Party:	<i>Yes</i>
No. of BSC Parties represented:	15
No. of Non-BSC Parties represented:	0
Responding on behalf of:	Powergen UK plc, Powergen Retail Limited, Diamond Power Generation 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
Role of respondent:	<i>Supplier/Generator</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	No	At the time when this proposal was submitted it sought to reduce the perceived risk to particular BSC Parties that could arise from a future hypothetical change of the BSC. It envisaged terms within the BSC that would lie dormant until a decision on a modification it was dependent on was made. We do not believe it is appropriate to ever consider such 'contingent' modification proposals, which simply seek to insure against regulatory risk. Such matters are rightly issues of public policy and we believe it is inappropriate for such 'contingent' modification proposals to even be accepted as a legitimate modification proposal in the first place. That is

		<p>why we proposed P111 Procedure to allow the BSC Panel to refuse to accept Contingent Modification proposals.</p> <p>We find it hard to believe that the Authority would have approved P109 or other 'contingent' proposals given that such modifications might fetter their discretion in deciding whether to approve or reject certain future BSC modification proposals.</p> <p>Even if you were to consider P109 a legitimate modification proposal it is hard to see that giving grandfathering rights or options to existing users would not be seen as discriminatory against new entrants. If you extend F factor optionality to new users the justification for the modification, namely protecting the value in past investment decisions, is not a sustainable. In any event allocating losses differently depending on whether parties have an F factor or not will inevitably lead to cross subsidies between BSC Parties. What is even more worrying, is the decisions of new parties to opt into F factors, and vary their generation output can have a significant impact on the level of losses that are allocated to parties that do not have F factors. Such volatility in the resulting TLMS is unacceptable.</p> <p>In light of the P82 decision and the fact that a decision has been made to implement zonal transmission losses (i.e. non-zero TLFs) P109 has become even less viable. We would urge the Modification Group to immediately refer P109 to the next Panel meeting and recommend rejection.</p> <p>This will prevent any further waste of the Panel's, Elexon's and BSC Parties time in considering this proposal, not to mention the £40k or so of expenditure has been wasted on the process thus far.</p>
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2.	<p>Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.</p>	No	<p>In the unlikely event that P109 were to be approved, it doesn't provide much of a mechanism to insure against regulatory risk. A subsequent modification (introducing the change a 'contingent' modification is seeking to insure against) would simply strike out the offending clauses.</p> <p>In practice regulatory risk is not reduced so there should be no impact on project finance or cost of capital within the electricity industry.</p>
3.	<p>What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?</p>		<p>Huge. The modification is hopelessly complex. Managing the various differential zonal loss factors and F factors would be an administrative headache. It would make pricing decisions more difficult and the added complexity could undermine our ability to offer risk management services to the market.</p> <p>Please note our response to any of the following questions should not be construed to lend any support whatsoever to this proposal.</p>
4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		<p>BSC Year given the recent P82 decision.</p> <p>The degree of resolution should match the degree of resolution applied to the TLFs. In the case of P105 this would have been a month of the Settlement Period in question.</p>
5.	<p>Do you support the following treatment of 'new' BM Units</p>		

	<p>established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>		<p>Yes. As a general rule of thumb we believe that it is appropriate to limit the amount of discretion the Panel or its delegated committees have where such discretion could have a material financial impact on particular BSC Parties.</p>
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 		<p>In principle no. However, it is difficult to see how this can be achieved practice.</p>
8.	<p>Should 'F-factors' be tradable?</p>		<p>No. The F factors should remain with the asset, so that they wouldn't be lost with a change of ownership. However, given this proposal is largely</p>

			about protecting the value of past investment decision for existing users ('grandfathering rights'), it is hard to see why new users need to also acquire such rights through trading of F factors, because they have been able to make their investment decision in full knowledge of the new transmission loss factors.
9.	Any other comments?		

P109_ASS_009 – British Energy

Name of Respondent:	<i>Name</i> Rachel Lockley
BSC Party:	Yes
No. of BSC Parties represented:	British Energy Generation Ltd, Eggborough Power Ltd, British Energy Power & Energy Trading Ltd
No. of Non-BSC Parties represented:	
Responding on behalf of:	<i>Please list all Parties responding on behalf of (including the respondent company if relevant)</i>
Role of respondent:	<i>Supplier/Generator/ Trading</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	Yes/No	<p>British Energy believes that P109 furthers BSC objective (c). Competition is a mechanism for producing efficient outcomes, in practice therefore competition and efficiency must mean the same thing. So that an outcome that does not promote efficiency cannot promote competition. Risk will impose a cost on industry participants and hence reducing risk reduces costs and enhances efficiency.</p> <p>Regardless of the supposed benefits of any future change in the value of TLFs such a change will:</p> <ul style="list-style-type: none"> • create large windfall gains and losses for existing generators and consumers • introduce a risk arising from future changes in TLFs for both existing

			<p>participants and new entrants</p> <p>P109 allows the benefits from changing incentives to be retained while reducing windfall gains and losses among existing participants and the risk of future changes in the TLF for existing and new participants. P109 therefore reduces the overall level of risk in the industry resulting in enhanced efficiency in the electricity market.</p>
2.	<p>Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.</p>	Yes	<p>P109 would reduce the cost of capital in the industry by reducing the level of perceived risk.</p>
3.	<p>What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?</p>		<p>The cost of implementing P109 would be low in terms of systems and processes particularly if it were implemented in parallel with P82.</p>
4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		<p>In the light of further consideration we now believe that the sample period from which the half-hourly F-factors are calculated should be quarterly. This will tend to smooth out the variation in F-factors due to the timing of outages.</p>
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p>		

<p>a) The definition of what constitutes a 'new' BM Unit?</p> <p>b) The use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist?</p> <p>c) The option for 'new' CVA-registered BM Units to participate in the hedging scheme?</p> <p>d) That the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it?</p> <p>e) That 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join?</p> <p>Please explain your answers.</p>		<p>a) 'New' BM Unit definition based on any new registration seems to work.</p> <p>b) As currently used CALF is a load factor that varies by BSC season and so would not directly be appropriate. However, the CALF methodology could be modified to produce F factors that reflect a MWh energy quantity and yield 48*12 factors over a year, which is what is needed.</p> <p>c) 'New' CVA-registered BM Units should be allowed to participate in hedging scheme as it allows them to hedge against future changes in their F factor, which will reduce the cost of new entry. Such a hedging arrangement will result in efficiency.</p> <p>d) A loss factor based on the historic TLF for old BM units is consistent with eliminating windfall gains and losses that would arise from a change in TFL.</p> <p>The ALF for new units should be based on the previous years TLF with a 10% increment (to allow for the adverse change that they will have when they begin generation) or by setting the ALF for new units based on the average TLF in its first year of operation.</p> <p>e) 15 years reflects the standard term of a financing arrangement of a new plant it is therefore appropriate for the hedging mechanism to reflect</p>
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			this period.
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>		For simplicity of administration 'F' factors should be set as far as possible in a mechanistic fashion. We believe that mechanistic implementation is possible.
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 		The proposed treatment emerged from consensus on how to apply the principles of P109.
8.	Should 'F-factors' be tradable?		Trading is known to produce efficient outcomes as long as property rights are clearly defined and transactions costs are low. Traders can transfer F factors bilaterally but given that "F-factors" are clearly assigned to a BMU, allowing for trade of F-factors in the BSC should reduce transaction costs and enhance efficiency.
9.	Any other comments?		<p>It was suggested in the consultation document that P109 would result in a cross-subsidy. However, there was no agreement within the modification group as to what precisely constituted a cross-subsidy or whether or not P109 would result in one.</p> <p>In response to the above point cross-subsidies are generally associated</p>

		<p>with reduced efficiency. As argued in the answer to question 1, P-109 enhances efficiency and we have seen no evidence to the contrary. From this we infer that P-109 does not result cross-subsidy, based on any reasonable definition of the term.</p> <p>A submission was made to the P109MG claiming to show evidence of cross-subsidies. We do not believe that this submission provides evidence of cross-subsidy or that the P109 scheme will harm the efficiency of the industry. The spreadsheet simply shows that the payments made to some players are recovered from all; since the same could be said of an insurance policy and other legitimate risk-sharing schemes, this observation cannot possibly constitute a definition of a cross-subsidy.</p> <p>The main contention of the submission, which was accompanied by worked examples of the scheme, was that</p> <ul style="list-style-type: none">• "TLMs depend upon F factor hedging decision of all participants"; and that• "in order to hedge effectively, [participants] need to know the [hedging] decisions of others". <p>While the first statement is correct it does not describe a cross-subsidy. The fact that the loss allocation of a participant depends on the decisions of other participants is true in any scheme where allocated losses and actual losses must be equal. In particular the metered quantity of a participant affects the metered quantities of other participants through the TLMO factor in the TLMs.</p> <p>With respect to the second statement, it is implied that participants would need to know the value of TLMO (in order to predict their TLM) before</p>
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			<p>deciding whether or not hedging would be worthwhile. This interpretation is incorrect, since the value of hedging depends entirely on the difference between future TLFs (which any investor would need to assess anyway) and the ALF applicable to the participant (which is known). TLMO affects all participants equally and so feeds through into market prices. Hence, although the size of TLMO depends on hedging decisions of all participants, the optimal hedging decision of an individual does not depend on TLMO.</p>
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P109_ASS_010 – NGC

Name of Respondent:	<i>National Grid</i>
BSC Party:	<i>Yes</i>
No. of BSC Parties represented:	<i>One</i>
No. of Non-BSC Parties represented:	
Responding on behalf of:	<i>National Grid</i>
Role of respondent:	<i>Transmission Company</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	No	We do not think that P109 better facilitates the Applicable BSC Objectives. There are a number of benefits provided to participants with the introduction of P109. However, these benefits are unlikely to outweigh the complexity and costs involved in implementing and administering such a scheme, and will tend to undermine the benefits of P82.
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	No	There is no direct effect on National Grid's cost of capital associated with the introduction of P109. We do not believe that the impact on the cost of capital associated with the introduction of TLFs can be determined.
3.	What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?		There is no direct impact on our systems or processes although there will be some small involvement from certain groups within National Grid e.g. Interconnectors. We do not believe that there is a specific lead time

			required for us to be able to implement P109.
4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>	<p>One seasonal figure for CVA.</p> <p>Seasonally calculated ½ hourly figures for SVA</p>	<p>There should be one factor for the each season that does not vary for each settlement period. This will reflect the average output from the BMU over each season and indicate the running regime of the BMU and will be less subject to the effect of outages or breakdowns or any distortions from the previous year.</p> <p>Although there may be periods where there is a difference in the output to the f-factor this should even out over the period if the running regime and volumes are similar from year to year.</p> <p>As SVA registered BMUs have no option but to opt into P109 there may be some benefits in providing greater f-factor resolution.</p>
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? 	<p>Yes</p> <p>Yes</p> <p>No</p>	<p>The definition of 'new' is adequate although the change of BMU registration from SVA to CVA (and back) is not captured. To capture this would probably be too costly and complex for the number of instances when it may occur.</p> <p>We support the use of CALF-type values for the calculation of f-factors although there are some issues associated with the treatment of new technologies and the development of current technology.</p> <p>We do not believe that new CVA registered BMUs should participate in the hedging scheme if the decision to connect to the system was made after the implementation of TLFs. The decision to connect would be made with</p>

	<ul style="list-style-type: none"> that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>	<p>No</p> <p>No</p>	<p>the knowledge that there are variable TLFs and this could be factored into the projects risk strategy.</p> <p>We do not believe that new BMUs should have a fixed TLF for any proportion of their output.</p> <p>New CVA BMUs should not be covered by the hedging scheme at all.</p>
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>	Yes	<p>Yes. The only issue that may arise with using a rigid CALF methodology to calculate f-factors is with new technology including advancements in current technology. The CALF methodology does consider new technology but this part of the procedure may have to be improved to apply to the calculation of f-factors that are fixed for 15 years.</p>
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> Interconnector BM Units? SVA-registered BM Units? CVA-registered BM Units? 	<p>Yes</p> <p>No</p> <p>No</p>	<p>How f-factors are set for interconnectors needs to be considered in more detail, especially how both importing and exporting situations are covered at the same time e.g. if the link is exporting with an "importing" f-factor.</p> <p>The ability of CVA-registered BM Units to be able to opt in or out of the scheme and SVA-registered BM Units being obliged to join would seem to be discriminating against SVA-registered BM Unit participants.</p> <p>There are potential cost and complexity implications for extending the opt in / out option to SVA-registered BM Units. However, there are potentially significant costs associated with the implementation and administration of the scheme for CVA registered BMUs and the increase in costs and</p>

			complexity associated with including SVA-registered BM Units should be considered to allow all BSC parties the same flexibility.
8.	Should 'F-factors' be tradable?	No	No. The f-factor should only be allowed to change "owner" if the BMU ownership changes i.e. the f-factor can be transferred to the new owner of the BMU but cannot be transferred between different BMUs.
9.	Any other comments?		None

P109_ASS_011 – British Gas Trading

RE: P109 Assessment Consultation

British Gas Trading (BGT) do not support any further development of BSC Modification Proposal P109. The recent approval of P82 has removed the regulatory uncertainty associated with the potential implementation of a zonal losses scheme. In our view any further risks associated with the zonal losses scheme should be dealt with by individual companies. We do not believe the BSC is the appropriate place for a hedging scheme that will be for the benefit of a limited number of parties at the cost of all.

For the avoidance of doubt, we recommend this proposal is sent to Report with a recommendation to reject.

Regards

Danielle Lane

P109_ASS_012 – Scottish Power

Name of Respondent:	<i>Man Kwong Liu</i>
BSC Party:	<i>Yes</i>
No. of BSC Parties represented:	<i>4</i>
No. of Non-BSC Parties represented:	
Responding on behalf of:	<i>Please list all Parties responding on behalf of (including the respondent company if relevant) ScottishPower Energy Trading Ltd.; Scottish Power Generation Ltd.; ScottishPower Energy Retail Ltd.; ScottishPower UK plc</i>
Role of respondent:	<i>(Supplier/Generator/ Trader / Consolidator / etc – please state) Trading party</i>

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	Yes	P109 would better achieve BSC Objective (c) (promoting effective competition). The effect of the initial introduction of a zonal losses scheme would create windfall gains and losses. Such gains and losses are inefficient and hence distort competition. Risks remain for both existing players and new entrants of future changes in TLFs. Introduction of P109 would retain the alleged benefits of changed marginal incentives while reducing significantly the windfall gains and losses and providing protection against future changes in TLFs.
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	Yes	The presence of the risk of adverse changes in loss factors being imposed on a project increases the uncertainty surrounding the potential return from the investment in the project. The removal or reduction of this risk would be expected to reduce the cost of capital for future projects.

3.	<p>What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?</p>		<p>The impact of implementing P109 in our organisation would be low and could be managed alongside the implementation of the changes required to accommodate the modification which triggered the implementation of P109.</p>
4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		<p>Use of a month of the settlement period in question would give the best compromise between accuracy and complexity.</p>
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>Definition - Registration appears to work provided that COBOs and transfers of registration between SMRS and CMRS (and any similar registrations which are new for 'technical reasons') are excluded.</p> <p>Use of CALF-type values for default F-factors - Suitable values would need to be derived to provide the necessary profiles.</p> <p>The option for new BMUs to participate - The ability to lock in to an F-factor similar to the one on which the investment decision was based is a valuable feature of P109. This feature reduces risk and hence increases efficiency.</p> <p>The F-factor energy has the historic TLF applied to it - The use of the historic loss factor is the basis for eliminating the windfall gains and losses which would result from the introduction of zonal losses.</p>

	Please explain your answers.		New BM Units should be covered for 15 years from joining the scheme - 15 years represents the normal financing period for a project and the scheme is intended to reduce the risks and hence the cost of that financing.
6.	Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)? Please explain your answer.	Yes	The process should be as mechanistic as possible. Given the responses above regarding sample period, historic TLF etc this should be easily achievable.
7.	Is the different treatment of BM Units proposed in the following areas appropriate: <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 	Yes	Interconnector BM Units - The continually changing user population on a fixed capacity Interconnector suggests that a sharing arrangement is appropriate. The proposal to use an SVA-type arrangement seems reasonable. SVA registered BMUs - Should it be thought necessary to include demand in the scheme then this seems the most appropriate methodology as it is not possible to attribute historic values to the individual suppliers when the customers are continually moving between different suppliers. It should be noted that the locational signal to SVA registered customers will be weakened by this approach. CVA registered BMUs - The treatment of these BMUs is relatively straightforward and the methodology would retain the locational signal for marginal changes in output.
8.	Should 'F-factors' be tradable?	Yes	Providing for the trading of F-factors would further enhance efficiency.
9.	Any other comments?	Yes	ScottishPower does not believe that P109 would lead to a 'cross-subsidy'

			<p>between parties. As noted above, the implementation of P109 would mitigate risk and enhance efficiency. We do not accept that risk mitigation schemes, such as insurance, constitute 'cross-subsidies'. While the TLMS faced by individual participants will depend on the hedging decisions of others, the TLMS faced by participants would in any case depend on the decisions of others regarding the siting and operation of their stations. That the hedging decisions are another variable does not mean that the scheme does not enhance efficiency, nor does it imply a 'cross-subsidy'.</p>
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P109_ASS_013 – Scottish and Southern

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

In relation to the nine questions listed in the Consultation Paper, contained within your note of 14th January 2003 concerning Modification Proposals P109, we have the following comments to make:-

Q1 Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.

We believe that P109 will better facilitate the achievement of the Applicable BSC Objectives (c): Promoting effective competition in the generation and supply of electricity and (so far as is consistent therewith) promoting such competition in the sale and purchase of electricity.

We note the comments made by the TLFMG that since competition is a tool that produces efficient outcomes, in practice they must mean the same thing. It therefore follows that an outcome that does not promote efficiency cannot promote competition. Furthermore, risk imposes a cost on industry participants and reducing risk reduces costs and enhances efficiency.

Furthermore, we note the slide presentations made at the September 24th meeting which referred to there being "Winners" and "Losers" in terms of Generation and Demand. Any future change in the value of TLFs suggest in P82, we believe would:-

- a) create large windfall gains and losses for existing generators and consumers; and
- b) introduce a risk arising from future changes in TLFs for both existing participants and new entrants.

We believe that Modification Proposal P109 allows the retention of any potential benefit from changing incentives while significantly reducing windfall gains and losses among existing participants and the risk of future changes in the TLF for existing and new participants. It therefore follows that P109 will reduce the overall level of risk in the industry resulting in enhanced efficiency in the sale and purchase of electricity.

Q2 Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.

In our view Modification Proposal P109 would reduce the cost of capital in the industry by reducing the level of perceived risk which we believe a detailed cost-benefit analysis would identify. Such a detailed cost-benefit analysis should, in our view, conform to the 'best practice' guidance contained in the Better Regulation Task Force (BRTF) report on Economic Regulators ("Economic Regulators, Better Regulation Task Force, July 2001").

In line with the Recommendation 2 of the BRTF the Authority "should be required to produce assessments of costs and benefits for proposals with a significant impact on business activity". The Cabinet Office Code of Practice also makes clear that a consultation "should so far as possible include an assessment of the impact of the proposals on groups likely to be particularly affected" (page 10, Para 2).

We note, in this respect, that the Authority's view of what constitutes a cost-benefit analysis could be considered to be more akin to a 'cost of systems'; i.e. central system costs etc.; study. Where the Authority has considered costs at all (see for example the Authority's evidence to the House of Commons Trade and Industry committee), it has tended to refer only to the Authority or central system costs, not implementation costs across market participants; nor has it appeared to take account of the Authority's wider objectives in respect of the environment and other matters.

Q3 What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?

We believe that the cost of implementation (that is the 'system' costs and the overall non system related costs) to market participants will be low.

Q4 Which of the following should be the sample period from which half-hourly F-factors are calculated:

- a month of the Settlement Period in question?
- a BSC Season of the Settlement Period in question?
- a BSC Year of the Settlement Period in question?
- another period (please specify)?

Please explain your answer.

We be that a quarterly period would be appropriate in order to allow for the smoothing out of the variation in F-factors due to the timing of outages.

Q5 Do you support the following treatment of ?new? BM Units established by the

Modification Group:

the definition of what constitutes a 'new' BM Unit?

In our view "New BM Unit" defined as a registration (using either connection agreements or changes in GC) is appropriate. We do not agree with the comments in the Consultation Document that the former is 'too broad' and the later 'too narrow'. We do not know what is meant by these criticisms.

the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist?

As currently used CALF is a load factor that varies only by BSC season and would not directly be appropriate. However, the CALF methodology could be modified to produce F-factors that reflect a MWh energy quantity and yield 48*12 factors over a year, which is what is needed.

the option for 'new' CVA-registered BM Units to participate in the hedging scheme?

'New' CVA-registered BM Units should be allowed to participate in hedging scheme as it allows them to hedge against future changes in their F-factor which will reduce the cost of new entry. We believe that such a hedging approach is efficient.

that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it?

A loss factor based on the historic TLF for old BM units is consistent with eliminating windfall gains and losses that would arise from a change in TLF. In respect of 'new' BM Units, whilst we appreciate there may be concerns, in respect of basing ALF on the previous year's TLFs is discriminatory, we believe this can be addressed by either:

- a) ALF for new units based on the previous years TLF with a 10% increment (to allow for the adverse change that they will have when they begin generation); or
- b) ALF for new units based on the average TLF in its first year of operation.

that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join?

We note that 15 years reflects the standard term of a financing arrangement for a new plant and it is therefore appropriate for the hedging mechanism to reflect this period.

Q6 Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?

Please explain your answer.

In our view it is entirely possible to implement a mechanistic approach, which has the advantage of simplicity of administration. Accordingly, 'F' factors should be set as far as possible in a mechanistic fashion.

Q7 Is the different treatment of BM Units proposed in the following areas appropriate:

- Interconnector BM Units?

- SVA-registered BM Units?
- CVA-registered BM Units?

It is our understanding that the proposed treatment emerged from a consensus on how to apply the principles of P109. We believe there maybe some concerns in respect of the SVA phasing as it has sharing and gives an incorrect marginal signal. In the light of these concerns we would be sympathetic to it being left out.

We are not sure why Interconnector BM Units should be treated differently and believe that further work is clearly required in this area, as the consultation itself recognises. The historical output of an Interconnector is the aggregate output of two or more parties BMUs. The setting of F factors where this is the case could be problematic unless it is done at a BMU level i.e. not the Interconnector as a whole.

Q8 Should F-factors be tradable?

Given developments in other areas which are based on the principle that trading is known to produce efficient outcomes as long as property rights are clearly defined and transactions costs are low we believe that trading should be permitted. However, there is a need for further thought into this matter to ensure that no gaming can occur.

Q9 Any other comments?

We understand that there is a belief that Modification Proposal P109 may entail cross-subsidies, a view that we disagree with.

The consultation documents notes:

"a member of the TLFMG has suggested that Applicable Objective (c) would not be better achieved because P109 would result in a 'cross-subsidy', however, there was no agreement as to what constitutes a 'cross-subsidy' or whether or not P109 would result in one."

In our view there is no consensus, in economic literature, on the precise definition of a "cross-subsidy". However, it is clear that cross-subsidies are generally associated with reduced efficiency (i.e. a reduction in overall welfare). As we have argued in the answer to Q1 above, P109 enhances efficiency and we have seen no evidence in the Consultation Document, to the contrary. From this we deduce that P109 does not give rise, by any reasonable definition, to a "cross-subsidy" situation.

It is our understanding that one Party, in their submission to the TLFMG, claims to show evidence of cross-subsidies. However, it is important to note that this submission does not provide evidence on any reasonable definition of a cross-subsidy or on how the P109 scheme will harm the efficiency of the industry. The spreadsheet included in that submission merely shows that the payments made to some players are recovered from all; since the same could be said of house insurance and other legitimate risk-sharing schemes, this observation cannot possibly constitute a definition of a "cross-subsidy"

The main contention of the submission, which was accompanied by worked examples of the scheme, was that:-

- a) "TLMs depend upon F factor hedging decision of all participants"; and that
- b) "in order to hedge effectively, [participants] need to know the [hedging]

decisions of others".

The first statement (a) is true but does not describe a cross-subsidy. The fact that the loss allocation of a participant depends on the decisions of other participants is true in any scheme where allocated losses and actual losses must be equal. In particular the metered quantity of a participant affects the metered quantities of other participants through the TLMO factor in the TLMs.

With respect to the second statement, (b) the Party seems to be implying that participants would need to know the value of TLMO (in order to predict their TLM) before deciding whether or not hedging would be worthwhile. This interpretation is incorrect, since the value of hedging depends entirely on the difference between future TLFs (which any investor would need to assess anyway) and the ALF applicable to the participant (which is known). TLMO affects all participants equally and so feeds through into market prices. Hence, although the size of TLMO depends on hedging decisions of all participants, the optimal hedging decision of an individual does not depend on TLMO.

Furthermore, the Party seems to incorrectly understand how an optimal hedging decision would be taken and erroneously concludes from this that P109 "would be unworkable". The Party states that

In effect a generator that is 100% hedged could be worse off in a F factor scheme than if he had remained with an unhedged factor. For example parties in zone 7 are worse off by £469.85 with a 100% hedge for the winter peak compared with being worse off by £292.86 with an unhedged volume. This perhaps illustrates that P109 could be unworkable in practice.

The first part of this statement is not very meaningful and applies to any form

of insurance; it is equivalent to saying that someone could have car insurance and not have an accident.

The statement along with the example seem to imply that knowing one's future TLF and the ALF is not enough to know whether to hedge or not. This is incorrect. In the example cited zone 7 BMUs have an ALF of approximately -0.009 and a future TLF of approximately -0.006. Given that $TLF < ALF$ the optimal hedging decision for zone 7 BMUs would therefore be not to hedge. Accordingly if a BMU in zone 7 makes the erroneous decision to hedge it will get a larger quantity of losses allocated to it than if it doesn't hedge. In conclusion the example used in the Party's submission does not in any way suggest that P109 "could be unworkable in practice".

Regards

Garth Graham
Scottish and Southern Energy

P109_ASS_014 – Teesside Power Ltd

Name of Respondent:	Teesside Power Limited
BSC Party:	yes
No. of BSC Parties represented:	one
No. of Non-BSC Parties represented:	none
Responding on behalf of:	Teesside Power Limited
Role of respondent:	Generator

Q	Question	Response	Rationale
1.	Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.	Yes	<p>TPL considers that the most significant benefit arises in relation to Applicable BSC Objective (c): “promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity”.</p> <p>It is accepted that risk of change in market trading arrangements is a factor which financiers take into consideration when determining loans to finance projects in the electricity sector. Thus this risk element imposes a real cost on all market participants. P109 reduces the impact of the risk, should it materialise, thereby avoiding the increased costs and hence enhancing efficiency consistent with the promotion of competition.</p>
2.	Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.	Yes	It is a fact that changes in the arrangements for trading electricity are considered as a risk by investors in power projects as, unless they can be hedged through an appropriate arrangement, they give rise to

			<p>uncertainties in financial forecasts of the company seeking the funding.</p> <p>We consider that it would be difficult to obtain figures from the investment community to quantify the impact of the risks for which P109 provides a hedge because, in general, investors arrive at an interest rate based on a commercial judgement at the time of making the investment based on a number of inter-related factors. On that basis, we simply note that the only figure which is available is that provided by Enron prior to its collapse: we consider the figure of an increase of 1% in the cost of capital, derived by Enron, to be reasonable.</p> <p>Whilst we have not yet had the time to digest the report in full, the survey undertaken by Cap Gemini, and reported in today's press, substantiates this position.</p>
3.	<p>What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?</p>		<p>Whilst a detailed review of systems' requirements has not been carried out, given the nature of the proposed changes, we believe that the impact on TPL's systems would be relatively minor and the changes could be effected in a relatively short period, certainly no more than six months following approval of P109 for implementation.</p>
4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? • another period (please specify)? <p>Please explain your answer.</p>		<p>We consider that sample period from which half-hourly F-factors are calculated should be the BSC Season of the Settlement Period in question.</p> <p>The main reason for this is that adoption of shorter periods will have the potential for distortions due to small changes in operating regime, particularly where planned maintenance shifts from one month to the next. Similarly, an annual figure would tend to "smooth" the profile to too great an extent.</p> <p>The seasonal basis is well established, both in the original Pool environment and under the terms of the BSC, as a reasonable and</p>

			practical compromise between accuracy and volatility.
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> a. the definition of what constitutes a 'new' BM Unit? b. the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? c. the option for 'new' CVA-registered BM Units to participate in the hedging scheme? d. that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? e. that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? <p>Please explain your answers.</p>		<ul style="list-style-type: none"> a. We concur with the definition of what constitutes a 'new' BM Units as a practical and pragmatic solution. b. whilst we are aware of deficiencies in the current definition of CALF values, we consider it appropriate to use them for the limited circumstances where the relevant historical data set does not exist. c. We consider that it would be detrimental to overall market efficiency if 'new' CVA-registered BM Units were to be excluded from the scheme: hence, we support 'new' CVA-registered BM units having the option to participate. d. We agree with the proposal to use the historic TLF for existing generation as it is consistent with limiting any gains or losses to marginal changes in production or consumption. For new BM Units, it may be appropriate to consider using the average TLF for the zone during its first full year of operation. This would avoid any distortion from the introduction of the new generation or demand. e. As explained in the Proposal, P109 is designed to mitigate against the risks associated with changes to the allocation of losses which would have an adverse impact on the costs of finance for market participants. Given that, at least for new build projects, fifteen years is a typical project finance period, it is appropriate to use fifteen years as the period over which the P109 risk management arrangement applies.

6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>		<p>Yes. There is no reason why 'F' factors cannot be determined according to a set of robust rules. This has the advantage of transparency which will further enhance the efficiency of the trading arrangement with P109 having been implemented.</p>
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 		<p>In principle, we believe that there should be equitable treatment for any category of BM Unit. We consider that different treatment should only apply where such difference is inevitable as a result of the basic BSC treatment of the different BM Units.</p>
8.	<p>Should 'F-factors' be tradable?</p>		<p>We can find no good reason for restricting the tradability of 'F-factors'. Generally, we would expect market efficiency to be enhanced by 'F-factor' trading.</p>
9.	<p>Any other comments?</p>		<p>We note the helpful description of the discussions which have taken place in the P109 Modifications Group and the matters which have been raised, the most important of which have been addressed in the questions above.</p> <p>In the section headed impact of proposal, we note that there was a minority view within the P109MG that adoption of P109 would result in a 'cross-subsidy'. We have considered this position and are unable to establish on what basis the introduction of P109, which essentially removes the scope for winners and losers as a result of a change in the allocation arrangements for losses, can be construed as introduction of a cross subsidy.</p> <p>We would also emphasize that the scheme will not dilute the "signals" seen by market participants at the margin, and thereby remove any perceived benefits of introducing alternative arrangements for the allocation of</p>

			<p>losses: e.g. as per P82. In other words the scheme can do no worse than P82 and in our view would positively better meet the applicable BSC objectives.</p> <p>Finally, in the absence of a scheme such as that proposed in P109, the only risk management available to market participants is to “build” a portfolio of production or demand capability on the basis that any changes in the TLFs will in some way net off for the portfolio as a whole. We consider that such a response, whilst rational, would be inefficient from an overall market perspective, would require additional investment in connection assets, at least, and hence would be inconsistent with all of the Applicable BSC Objectives. P109 avoids the need for such a response.</p>
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P109_ASS_015 – LE Group

Name of Respondent:	Tony Diccico
BSC Party:	Yes
No. of BSC Parties represented:	4
No. of Non-BSC Parties represented:	0
Responding on behalf of:	LE Group (London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power, West Burton Ltd)
Role of respondent:	Supplier/Generator

Q	Question	Response	Rationale
1.	<p>Would implementation of P109 better facilitate achievement of the Applicable BSC Objectives compared to the current baseline? Please explain your answer.</p>	No	<p>Were this modification to be applied to a change in the allocation of Transmission Losses such as that defined by modification P82 for example, it would result in a distortion of the intended cost reflectivity and locational signals. This would be detrimental to the achievement of BSC Objective (b).</p> <p>It is also particularly concerning that the losses charged to parties who do not opt-in to the F-factor scheme will be directly affected by those parties who do opt-in. The avoided costs for those opted into the hedging scheme would have to be paid by those not opted in. This would create a new cross subsidy and would therefore be detrimental to the achievement of BSC objective (c).</p> <p>P109 is intended to provide hedging against regulatory risk and is triggered by determinations on changes to the BSC. Since a change to the allocation of Transmission Losses has now been approved by the</p>

			<p>authority this modification proposal could not be applied to that change. Furthermore, the risk of future changes to the allocation of transmission losses could reasonably be considered to have substantially reduced. The potentially high costs of implementing this modification are therefore very unlikely to be justified and this proposal would therefore be detrimental to the achievement of BSC objective (d).</p>
2.	<p>Would implementation of P109 have an impact on project finance within the electricity industry? In particular, would it have an impact on the cost of capital? Please explain your answer.</p>	No	<p>Although we recognise the value of reducing uncertainty when a project is financed, hedging against future changes in Transmission Losses would reduce only one of many risks within the electricity industry. It therefore seems logical that any positive impact on the cost of capital will be minimal. The effects of regulatory changes on the cost of capital for a project are extremely difficult to quantify. Furthermore, the cost of capital for any given project would be affected by a variety of factors, some common to all market players and some specific to individual projects and participants.</p>
3.	<p>What would be the impact of P109 on your organisation in term of systems and processes? What lead-time would you require to any changes that such an impact would require?</p>		<p>Any substantial changes to the algebra contained within Section T of the BSC would require changes to our settlement and data capture systems. The magnitude and costs of these changes cannot be quantified until the necessary algebra is finalised but could be significant. Typical lead times for changes to these systems are 3-6 months.</p>
4.	<p>Which of the following should be the sample period from which half-hourly F-factors are calculated:</p> <ul style="list-style-type: none"> • a month of the Settlement Period in question? • a BSC Season of the Settlement Period in question? • a BSC Year of the Settlement Period in question? 		<p>None of the suggested options can ever be ideal for generation, as routine or emergency maintenance work will affect the output of stations substantially, sometimes for weeks at a time. The sample period should be chosen in order to minimise the effect of this, although there will never be universally suitable solution. Intermittent generators, such as pumped storage and renewables, which are likely to become increasingly prevalent in the UK will find F-factor profiles impossible to use as intended.</p>

	<ul style="list-style-type: none"> • another period (please specify)? <p>Please explain your answer.</p>		<p>For demand the half hourly factors should be based on a short time period to allow for the substantial variation which is seen across the year.</p>
5.	<p>Do you support the following treatment of 'new' BM Units established by the Modification Group:</p> <ul style="list-style-type: none"> • the definition of what constitutes a 'new' BM Unit? • the use of CALF-type values as default 'F-factors' for 'new' BM Units for which the relevant historical data set does not exist? • the option for 'new' CVA-registered BM Units to participate in the hedging scheme? • that the 'F-factor' portion of energy has a loss factor based on the historic Transmission Loss Factor (TLF) applicable to a typical generator/supplier in the given zone applied to it? • that 'new' CVA-registered BM Units are covered by the hedging scheme for 15 years from the moment they join? 		<p>We are concerned that the definition of a 'new' BM unit has not been considered in sufficient detail. Although it would be compulsory to maintain the F-factor status in the event of a change of BM Unit ownership (COBO), the restructuring of BM units by existing or new owners is not adequately covered by the proposals. The current working of the modification proposal implies that any re-registration of a BMU that was not associated with a COBO would provide an opportunity to opt in or out of the hedging scheme.</p> <p>The use of CALF-type values as default F-factors for new BMUs is a sensible and proven approach.</p> <p>New CVA registered BMUs should not be allowed to opt into the hedging scheme. They will be aware of the losses regime before they commission, and can model the likely effects, so there is no regulatory risk. If there are further changes in the future then they will be existing participants, so will be included in the scheme.</p> <p>The historic TLF should be applied to the F-factor volume.</p> <p>New CVA registered BMUs should definitely not be covered by the scheme for 15 years from the moment they join, or they could still be hedged</p>

	Please explain your answers.		when all other participants are fully exposed to zonal transmission losses, which is anti-competitive.
6.	<p>Should the process for the setting of 'F' factors be entirely 'mechanistic' (i.e. include no opportunity for the Panel to exercise its discretion in this process)?</p> <p>Please explain your answer.</p>	No.	<p>We would suggest that generators should be allowed an opportunity to request an alteration in their allocated volume if they can show that there were exceptional circumstances which affected their output during the time in which the data used to calculate the F-factor volume was collected. However the need for this process emphasises the complexity and inefficiency of this proposal.</p> <p>We note with concern that existing stations will retain the same F-factor volume for 15 years, during which time their output pattern may have varied substantially.</p> <p>For demand the setting of F-factors should be entirely mechanistic.</p>
7.	<p>Is the different treatment of BM Units proposed in the following areas appropriate:</p> <ul style="list-style-type: none"> • Interconnector BM Units? • SVA-registered BM Units? • CVA-registered BM Units? 	Yes.	We agree with the proposed treatment of BM Units within the categories of SVA, CVA and Interconnector BM Units.
8.	Should 'F-factors' be tradable?	No.	Economic theory would suggest that tradability would bring benefits in competition and efficiency to the market. However, in this context, allowing F-factors to be traded would add another layer of complexity to an already complicated process.
9.	Any other comments?		