

Responses from P100 Draft Report Consultation

Consultation issued 17 December 2002

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	SEEBOARD Energy	P100_DR_001	1	
2.	Gaz de France Energy	P100_DR_002		1
3.	Alcan Primary Metal – Europe.	P100_DR_003		1
4.	British Gas Trading Ltd	P100_DR_004	1	
5.	Slough Energy Supplies Limited	P100_DR_005	1	
6.	Powergen UK Plc	P100_DR_006	1	
7.	LE Group Plc	P100_DR_007	7	
8.	Aquila Networks	P100_DR_008	1	
9.	Innogy plc	P100_DR_009	9	
10.	Scottish Power UK plc	P100_DR_010	6	

P100_DR_001 – SEEBOARD Energy

With respect to draft modification report for P100 (Extension of Demand-side Trading Units in order to increase competitiveness of market for embedded benefits) dated 17th December 2002. We have noted details within this report and considerations made by modification group. At this stage we do not feel that case for this modification to better meet BSC objectives has been made. As such we are unable to support recommendations detailed within section 1.1 of above mentioned report.

Dave Morton
SEEBOARD Energy Limited

P100_DR_002 – Gaz de France Energy

Thank you for your invitation to submit a response in respect of the above modification proposal.

Currently, netting off rules for embedded generation are complex and inconsistent, treating similar types of generating plant differently. In particular, the current rules do not readily facilitate competition in generation and supply, as in order to realise embedded benefits Embedded Licence Exempt Generators (ELEGs) registered in CVA are still required to net off their export with a counterparty possessing sufficient demand in the relevant GSP group. This both restricts the contracting options of such ELEGs, and also effectively prevents those counterparties not possessing sufficient demand in the GSP group from tendering competitively for such ELEGs' output.

As the proposed modification would enable ELEGs to obtain their embedded benefits through a relationship with any meter registrant in a GSP regardless of that registrant's demand in that GSP, realisation of embedded benefits in itself would no longer influence the competitiveness of tenders for these ELEG outputs. Contracting options available to both ELEGs and those tendering for their output would be increased, as those parties possessing sufficient demand to permit "netting off" in the GSP would no longer be competitively advantaged over those lacking such demand. In particular, the range of counter parties able competitively to tender for renewable generation would be widened, as the vast majority of renewable generating stations would be covered by the modification. The overall effect would be to better facilitate competition in generation and supply, and to improve market conditions for both renewable generators and suppliers seeking to meet their renewables obligation targets.

Our only concern is that this proposal would incentivise SVA registered ELEGs to transfer their registration to CVA in order that they could obtain the embedded benefits directly as the meter registrant, to such an extent that unsupported demands could be made on the existing arrangements for such transfers. We would therefore suggest that the practical implications of the proposal are fully explored in this respect.

Subject to this concern, Gaz de France Energy supports P100 as in our view it is in line with the BSC objective of promoting effective competition in the generation and supply of electricity, and welcomes the Panel's decision to recommend to the Authority that the modification should be made.

We also note that this modification is consistent with the proposed modification UOSCM-M-07 to NGC's Use of System Charging Methodology, a proposal we supported in a response provided to NGC on 9 December 2002.

Should you require any clarification on our comments, please contact me.

Yours sincerely

Rob Watson

Trading Director
Gaz de France Energy
Supply Solutions
(On behalf of Gaz de France Marketing Limited)

P100_DR_003 - Alcan Primary Metal – Europe.

Alcan supports the BSC Panel's decision to approve P100 modification.

This modification will allow an Embedded Generator to have an increased choice of trading partners. At present the loss of embedded benefits, although greatly reduced since NETA, create a barrier to trading with other than the host supplier.

Regards

Bob Nicholson
Power Commercial Manager

P100_DR_004 British Gas Trading Ltd

Thank you for the opportunity of responding to this consultation. British Gas Trading Ltd does not support the Panel's initial view that the proposal should be implemented.

We are disappointed that the Panel recommended that this Modification be implemented, we believe that strong arguments have been made against the implementation of this modification.

We believe that if this modification is implemented and LEGs retain the entire embedded benefits, Suppliers who currently contract with them will face a number of additional costs, namely, increased credit risk, transaction and administration costs. This is likely to result in contracting with LEGs being a commercially unsound proposition. This modification will also introduce a direct cross subsidy between Suppliers and LEGs.

If, following implementation, LEGs pass a percentage of the embedded benefits to Suppliers, this will also introduce the additional costs mentioned above to Suppliers. Currently, Suppliers pass on a high percentage of the embedded benefits to LEGs (subject to contracted terms), we can see no value in creating additional costs to achieve the same end result as this can only increase overall costs to the end consumer.

We suggest that embedded benefits result as a consequence of embedded generators and demand (represented by Suppliers) within the same Trading Unit, and should therefore be shared between these two Parties. This currently occurs under contractual arrangements. We can see no reason why introducing what is effectively a cross subsidy will better facilitate relevant BSC Objective (c) promoting effective competition in the generation and supply of electricity. Additionally, we believe this modification can only result in higher prices to the end consumer.

Yours faithfully

Sarah Grimes
Commercial Manager

P100_DR_005 – Slough Energy Supplies Ltd

P100 Report Comments

We are responding on behalf of Slough Energy Supplies Limited, the Proposer of P100, to the consultation on the draft Modification Report, issued on 17th December.

In response to the draft report, we wish to reiterate all the points made in our answers to the P100 Assessment Consultation, which we sent on behalf of the Proposer on 26th November. In addition, we have the following specific comments on the draft:

Page 6, line 5

We would ask that this sentence be amended to read: "... would remove certain market imperfections and thereby create the economic conditions under which competition for embedded benefits could increase." This would make it clear that the central argument behind P100 is that the economic conditions under which competition could increase would be created by the removal of the imperfections referred to; they are not two separate issues.

Paragraphs 3 and 7

As you will be aware, as part of the Assessment Procedure for P100, Elexon carried out its own analysis of supply in GSP groups, an issue which was important to the Proposer's contention that the number of suppliers with sufficient consumer demand under each GSP group (and therefore the number of potential counterparties to whom they can sell embedded benefits) was severely restricted. The conclusion of this analysis was included in the first draft of the Assessment Report and it was agreed by Elexon that it would also appear in the final Assessment Report in the following form:

"... The analysis was deemed sufficient to corroborate the Proposer's view that a number of large Suppliers dominate the Supply Market within their respective GSP Groups ...".

As the conclusion of Elexon's analysis is material to the arguments behind P100 and was also acknowledged to be relevant in the context of the Assessment Report, we believe it should also be referred to in the Modification Report. Our view is that it is relevant both under paragraph 3 (History of Proposed Modification) and paragraph 7 (Assessment).

Timetable

We note the extremely short timescale for the preparation of responses, which of course includes the Christmas period. Given the resource constraints under which the vast majority of LEGs operate, particularly in comparison with large generators, this will inevitably make it very difficult for most LEGs to respond. We hope that the Panel will take this into account in considering the response to the consultation.

Yours sincerely,

DAVID LYON

P100_DR_006 – Powergen UK Plc

Powergen continues to believe that P100 does not better meet any applicable BSC objectives and should not be implemented. This proposal would put in place a system which would create a cross subsidy to the registrants of some embedded, licence exempt generators (LEGs). We also believe that it arises from a mistaken view that there is insufficient competition between suppliers contracting with LEGs within GSP Groups.

Competition in GSP Groups

As mentioned above, the proposal has been made on the premise that there are insufficient numbers of suppliers in individual GSP Groups with sufficient demand, with whom LEGs can contract. The actual data does not support this as it shows that in the most concentrated GSP Group there are 4 suppliers with 10 percent share of the market or more. This means that in the worst scenario LEGs can go to at least three alternative suppliers if they are not happy with the terms one supplier has offered. What needs to be borne in mind is that the ultimate position in this respect is not where a very large number of suppliers exist with very little demand. What is required is a number of suppliers with sufficient demand to net against LEG generation.

Cross subsidy

It is worth considering where the current mechanism and P100 differ. The key elements are:

Present System

- Embedded generation avoids transmission charges.
- Demand which nets against that generation avoids transmission charges.
- Demand transmission charges are levied on the net amount of demand taken off the transmission network.

P100

- Embedded generation avoids transmission charges.
- Demand which nets against that generation does not avoid transmission charges. A payment equivalent to the amount which would have been avoided is made to the registrants of embedded generators.
- Demand charges are levied on the gross amount of demand consumed regardless of how much is taken off the transmission network.

The fundamental error with P100 is that it comes from a position of rewarding embedded generation for reducing the amount of demand taken from the system, but the opposite effect (that this demand removes the need to export the embedded generation onto the transmission system) is not deemed worthy of reward. P100 produces an asymmetrical position in that embedded generation not only avoids transmission charges, but is paid an additional amount too. The demand that nets against this generation doesn't avoid any charges and pays more than needs to be recovered in total. The surplus is then paid to the registrant of the embedded generator. This is where the cross subsidy comes from. The example in Annex 3 of the Assessment Report for P100 illustrates this.

A similar cross subsidy would occur if a trading unit were set up for the whole of a GSP Group under P7. However, in these circumstances the trading unit would have been set up with the permission of all participants. They would be able in these circumstances to ensure that the contract terms between parties ensured that appropriate payments were made to and from each party to avoid the cross subsidy occurring.

We note that a similar cross subsidy will be created if the Authority approves change proposal UoSCM-M-07 to NGC's TNUoS charging methodology.

Lack of industry support

It should be noted that support for P100 was fairly evenly split between participants who responded to the assessment consultation and within the modification group. The group therefore could not make a recommendation that the proposal would better meet the relevant BSC objectives. We are therefore surprised that with a modification of this complexity, the Panel felt that they were in a position to make a near unanimous recommendation that the modification should be implemented.

We would ask that the Panel reconsiders its position as there is insufficient evidence to lead it to recommend that the modification better meets the relevant BSC objectives.

Yours sincerely,

Paul Jones
Trading Arrangements

P100_DR_007 – LE Group Plc

Thank you for the opportunity to comment on the draft Modification Report for P100. We are surprised that the BSC Panel has come to "a significant majority in favour of the proposal" given that the outcome of the Modification (expert) Group, having debated the issues at length was evenly split. In addition we note that the Panel agreed with the conclusion of the Assessment Report that P100 would not materially affect Applicable BSC Objective (d). We note too that the Panel has been unable to support a test of the Proposal against Applicable BSC Objective (c). Instead their justification has been made from a balance between the arguments in favour verses those against.

Our own view is that the considered debate of the issues surrounding the Proposal have failed to demonstrate that P100 would better facilitate the Applicable BSC Objectives.

This reply is sent on behalf of: LE Group Plc, London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power Ltd, West Burton Power, London Power Network Plc, and Eastern Power Network Distribution Ltd, ECS.

With kind regards, Paul Chesterman
for Liz Anderson
General Manager, Energy Strategy & Regulation

P100_DR_008 – Aquila Networks

No Comment.

P100_DR_009 – Innogy plc

The following comments are made on behalf of Innogy plc, Npower Limited, Innogy Cogen Trading Limited, Innogy Cogen Limited, Npower Direct Limited, Npower Northern Limited, Npower Yorkshire Limited Npower Northern Supply Limited, Npower Yorkshire Supply Limited.

We note that the BSC Panel is recommending that Modification Proposal P100 is accepted by the Authority.

We are disappointed with the Panel's recommendation, as we believe that this modification does not better fulfil the BSC Relevant Objectives. Our reasoning is presented in the Innogy response to the P100 Assessment Report.

P100_DR_010 - Scottish Power UK plc

For and on behalf of: - Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.; SP Transmission plc; SP Manweb plc

With reference to the above, we are disappointed with the Panel's proposed recommendation on P100: Extension of Demand-side Trading Units in Order to Increase the Competitiveness of the Market for Embedded Benefits.

In this Consultation, we would reiterate the view which we have previously expressed in rejection of P100, when we believe that P100 only serve to give "positive discrimination" to LEGs at the expense of suppliers and adversely impact the customers.

The Panel's rationale on the Proposal to better facilitate the Applicable Objectives is arguable. P100 provides no additional benefit to the BSC. Previous modifications have already provided LEGs with the means to counteract any "handicapped bargaining position" and obtain a fair share of the embedded benefits associated with their plant. In fact, P100 would allow LEGs to obtain a disproportionate share of embedded benefits, to the detriment of the end customer and suppliers. This does not seem to be enhancing either competition or the efficiency of the trading arrangements.

Furthermore, I note that consultation responses showed only 4 BSC Parties and 6 non-BSC Parties supported P100, whilst 41 BSC Parties did not support P100. This clearly showed that 90% of BSC Parties believe this Mod Proposal does not better facilitate the Applicable Objectives and are against P100. When so many industry participants believe that the modification does not better meet the Applicable Objectives we find it hard to see how the Panel members can arrive at the opposite conclusion.

I trust that you will find these comments helpful. Nonetheless, should you require further clarification of any of the above, please do not hesitate to contact me.

Yours sincerely,

Man Kwong Liu