ANNEX 9 – RESPONSES TO THE INITIAL CONSULTATION ON THE MODIFICATION PROPOSAL

Responses from P25 Definition Consultation

Representations were received from the following parties:

No.	Company	File Reference
1.	TXU	P25_DEF_001
2.	Innogy	P25_DEF_002
3.	British Gas & Power	P25_DEF_003
4.	Immingham CHP Limited	P25_DEF_004
5.	SEEBOARD	P25_DEF_005
6.	British Energy	P25_DEF_006
7.	National Grid Company	P25_DEF_007
8.	Edison Mission Energy	P25_DEF_008
9.	Enron	P25_DEF_009
10.	London Electricity	P25_DEF_010
11.	Northern Electric	P25_DEF_011
12.	Scottish & Southern Energy	P25_DEF_012
13.	Powergen	P25_DEF_013

P25_DEF_001 – TXU

P25 Definition Comments

TXU make the following comments on behalf of its 14 BSC Parties;

We have a little sympathy with the Proposer in respect of the underlying principle, however we note that this issue was raised before Go-Live and rejected, hence we do not believe that any changes that are agreed should be made retrospectively.

We agree that the issues raised in the Initial Assessment are valid and have no other issues to add to that list.

In terms of defining the Mod more precisely in order to facilitate the Assessment process, we suggest that a useable definition of "commissioning" could be constructed from the Connection Energisation date as set out in the bilateral agreement with NGC (or the PES in the case of an Embedded Power Station) and the Plant handover date as specified between the construction contractor and the Plant owner.

In terms of defining what Imbalance rules apply to "Commissioning Plant" we suggest that this could be defined as percentage of the initial imbalance – we acknowledge that this could be set by the Panel from time to time and be anywhere between 0 and 100%. Conversely the Commissioning Plant would only be eligible for the equivalent amount of RCRC – i.e if they have a 30% Tolerance on Imbalance then they would receive 70% of the initial RCRC allocation.

We agree that the Registrant and the Counterparty would be required to confirm that the Commissioning Plant was selling firm power during the Commissiong period – if it is just spilling it will receive the SSP (which could be negative). We regard this as an inevitable commissiong cost.

The relevant merits of the Mod Proposal can be debated once it is sufficiently defined but we note that it would be helpful if the Proposer explained why they felt it to be necessary to have firm contracts in place during the Commissioning phase as opposed to simply spilling energy ?

Yours sincerely

Philip Russell

P25_DEF_002 – Innogy

Commissioning Status in NETA

Innogy do not support the proposal in its current form.

What is the definition of "commissioning activities"? They are not restricted to new BMU's - any return to service from a major outage for a plant can involve significant commissioning activities and commercial risk. Similarly there may be issues for demand side participants wishing to prove capability for the market.

The larger amount of commissioning is likely to be associated with embedded plant, which the modification proposal in its current form would not be capable of exempting.

The proposal suggests that the market players fund the risk associated with commissioning of new plant via Residual Cashflow. This does not appear to be consistent with usual risk management processes. Those in the best position to manage the risk involved in commissioning are the plant operators themselves. It is acknowledged that however the process is carried out the cost of running the system increases if plant output is uncertain, the important principle is that the incentives are correct to minimise the cost. This is achieved if the plant operator is exposed to the costs.

There are mechanisms available to assist in risk mitigation and indeed a market could develop to offer such services. Improved transparency of System Operator actions which influence balancing market prices, reduced gate closure timescales along with improved liquidity in the power exchanges will assist in this process.

As discussed in other forums, pooling arrangements for small generating plant/demand side plant could prove a mechanism for mitigating risk.

From a system operation requirement, NGC need to be aware of the best estimate of output/demand profile and companies are obliged to keep this up to date through redeclared data eg. MEL's etc. PN's may not necessarily be the best route for these notifications during commissioning. It may be that an easing of the System Operators Significant Incident Reporting scheme for commissioning plant may reduce the pressure during commissioning.

As with other modifications there appears little to justify retrospective application of such a modification.

P25_DEF_003 – BP Gas & Power

BP Gas Marketing thank you for your invitation to pass comments on the terms of reference of the definition phase of P25.

As the proposer of the modification we support the Panel's decision to send P25 to the definition phase in order that the modification can be properly fleshed out and that an appropriate solution can be achieved.

With regards to the specific terms of refernce we would like to make the following comments :

The definition of Commissioning Plant

The definition of a commissioning plant is a power station that is in the position to begin exporting power, but has not contractually achieved its' Commercial Operation Deadline (COD). This is much clearer to identify when the plant has a contract with a third party to get the station to COD. In situations when the plant owners are also responsible for getting the
station operational we would suggest that NGC or Elexon are charged with determining whether the plant is "commisioning" through a formal application process.

Eligibility for Commissioning Status

Eligibility of commissioning status is determined by whether a power station can be deemed a commissioning plant, based on the definition above. Commissioning Status must be applied for at least three months in advance of the start of commissioning and would be granted by Elexon, in conjunction with NGC. However Commissioning Status, must be governed by strict rules to ensure that it cannot be abused (see response to point 4).

Definition of Commissioning Plan, including the possible concepts of Commissioning Days or Commissioning Settlement Periods and regularity of updates

The commissioning plan would be the detailed half hourly plan of the station from the point that commissioning starts to COD. This plan must be originally submitted to both Elexon and NGC with the plant's application for commissioning status. From that point forth, any changes to the plan must be notified to NGC. Once commissioning starts the plant must update their commissioning plan to NGC on a daily basis and any deviations from the plan must be notified to a specific point of contact within NGC on a real time basis. The plant must also submit "Physical Notifications" in the manner of any other station.

Definition of the tests to which the criteria for continued eligibility for commissioning status are applied

We believe that commissioning status should be limited to certain time frames for each different generation constituency (deemed by Elexon). In the case of CCGTs we would recommend a period of three to four months, however this does not necessarily have to be consecutive, but should not last longer than a twelve month period. If the plant faces a serious technical problem that prevents it from continuing with its' commissioning schedule it may notify Elexon and NGC, with 24 hours notice, that it wishes to suspend its' "commissioning status" until it can resume its' schedule. Likewise the plant would need to give NGC and Elexon 24 hours that it wishes to resume commissioning, once it has resolved its'

problems. If a plant achieves its' COD before the three to four month period expires then the plant's commissioning status will lapse. To allow for extreme circumstances a plant may reapply for a second commissioning status phase, to be decided at Elexon's discretion.
To ensure that stations adhere to the rules relating to real time submission of changes to NGC, if a plant deviates from its' commissioning plan for seven consecutive days, excluding suspensions of status, by more than 50% (suggesting that the plant is not ssubmitting its' revised plan) the plant will lose its' commissioning status.

Whether the proposed relief from imbalance exposure assume that commissioning plant are always contracted to the level indicated by the commissioning plan and, if so, the proposed relief for commissioning plant that are either uncontracted or contracted at less that the level indicated by the commissioning plan and are thus selling to imbalance settlement

In our original modification proposal we suggested a methodology to make life more bearable for commissioning plants who suffer from the unrealiability and unpredicatability of their plant. This proposal focused on holding commissioning plants harmless from imbalance exposure. We saw this proposal as our best case scenario, but called the modification "Commissioning Status in NETA" rather than something such as "Cash Out Exemption for Commissioning Plants" on the basis that over the course of the definition phase a more appropriate methodology could be developed that was easier and cheaper to implement. In the light of the proposed IT expenditure of other modifications that are going through the modifications process at the present we believe it is important to minimise the potential cost of this modification. As such we would like to propose two other methodologies whereby we believe the overall objectives of our modification can be achieved.

Commissioning Contract with NGC

NGC will be obliged to enter into a contract with commissioning plants, as part of their license, to consume all the stations's available power. With the actual quantity of power being uncertain, contract notifications will be submitted retrospectively by NGC (as described in ECVAA failure procedures). The contract price would be determined by Elexon, as a fair reflection of what the power is actually worth. This price could potentially be index based, or a fixed price, revisited every quarter or season.

The plants will be responsible for notifying NGC by phone of any short term deviations from their physical notification / commissioning plan, so that NGC can balance the system efficiently. This will essentially hold commissioning plants harmless from imbalance exposure while they are under "commissioning status." The cost of the contracts would be chargeable to NGC's balancing costs and would thus be funded via BSUoS.

We believe that this is a simple and efficient method of securing a market for commissioning plant and requires no systems changes.

Extension of NGC Witness Testing

Part of the commissioning process will involve NGC witness testing, whereby NGC will visit the station and ensure that the plant is fully flexible. This process lasts for 12 hours and any changes in the plant's volume are controlled by bid/offer acceptances, so if NGC require the plant to drop to zero output the plant will be sent a bid acceptance to bring it down from its' physical notification level.

We propose that the NGC witness test is extended for the full commissioning cycle.
Obviously NGC would not be present for the full duration of commissioning, but a designated point of contact would be available within NGC for the plant to contact whenever they suffer a commissioning problem that means that they are unable to produce their intended output. The plant would essentially ask for their submitted bid or offer to be taken so that the plant's contracts will meet its' metered volume for any given half hour. This will mean that the plant will have the confidence to enter into the contracts market to sell the output of the plant during commissioning. Given that NGC will be obliged to take the plant's bids and offers Elexon must set the parameters of the prices that the plant can use in it's bid offer submissions, so that the station cannot profit from it's unreliability.

We believe that both these solutions will give commissioning plant a fair price for their output, will give the market confidence to build more capacity as they will not be unduly exposed to cash out prices during commissioning and involve the best participant in the market to manage the risk associated with commissioning plants (NGC).

We also believe that these two schemes are simple, easy to understand and police and cheap and straightforward to implement.

I would be very keen to discuss these in the modification group and determine whether the group believes that either of these solutions should be fleshed out and developed in more detail as part of the definition phase.

The entitlement of commissioning plant to receive Residual Cashflow Reallocation Cashflow (RCRC)

As the proposer of the modification I am naturally very much in favour of commissioning plants avoiding imbalance exposure. Although the original solution in the proposal suggested funding imbalances through the RCRC, the two alternatives suggested are likely to be much more cost efficient.

Detailed definitions for (5) and (6)

See detailed proposals above.

Our original modification proposal indicated our desire to see that the modification was introduced retrospectively, from 27th March 2001. It would be our intention that this point is also discussed within the Definition Phase.

Thank you again for your invitation to comment on the terms of reference of P25. We look forward to reviewing the comments of other participants and taking part in the Definition phase.

Yours faithfully,

Mark Simons
BP Gas & Power

P25_DEF_004 – Immingham CHP Limited

Re: Definition Comments on Modification P25: Commissioning Status in NETA

In consideration of the proposal and to address the specific issues raised from the last Panel meeting 12 July 2001, Immingham CHP Limited (formally Conoco Global Power Developments Limited) offer the following suggestions to assist the Modification Group in reviewing P25 under the Definition Procedure as described in section F2.5 of the Code.

Immingham CHP Limited (ICHPL) strongly supports the Modification Proposal P25 'Commissioning Status in NETA'. The process of commissioning results in unpredictability of operational performance and therefore an increased exposure to the balancing mechanism (BM). Consequently, the inability to take balancing action to correct short term changes in generation output unduly exposes commissioning plant to the vagaries of the BM.

ICHPL believes that the implementation of a proposal that does not overly expose commissioning plant should help to encourage the construction of additional, and more efficient generation thereby creating a more competitive market as deemed by the BSC's primary objective '*promoting effective competition……'* (section B1.2.1 b iii).

In terms of addressing the specific issues raised;

ICHPL define commissioning plant as '*plant that has not reached or achieved a position whereby it is ready for ' the commencement of commercial operation'*.

ICHPL suggest that Elexon be deemed the appropriate entity to grant the eligibility of 'commissioning status' for plant that would fit, for example, the above definition. Accordingly, rules need to be defined that clearly set the criteria for eligibility for commissioning status. These should be established and documented in advance.

ICHPL recommend that definite and different time frames be allocated for commissioning plant status based on the generation type. In the case of large scale CHP such as Immingham, we deem it appropriate that a minimum of 180 days worth of commissioning status be allocated. We recommend that this allocation be used in a twelve-month period, but not necessarily on a continuous basis.

ICHPL believe that it is essential that some form of relief from energy imbalance price exposure be sought for commissioning plant. At this stage ICHPL is very interested in discussing any alternatives that are or could be offered as a possible solution.

In summary, ICHPL are strongly in favour of having 'commissioning power stations' as a new category of participation under NETA based on the reasons outlined above. ICHPL believe that in order to assist the panel in meeting the objectives of the BSC and NETA, and furthermore, 'facilitate the attainment of the CHP generation target', the implementation of modification P25 is clearly appropriate, and provides positive incentives for actively encouraging new plant on to the system.

Yours Sincerely,

Hannah McKinney
Immingham CHP Limited
Power Market/Regulatory Analyst

P25_DEF_005 – SEEBOARD

P25 Definition Comments

In its current form SEEBOARD does not support this modification.

We understand that plant commissioning under NETA presents a greater risk to generators than under previous trading arrangements. However to move all risk from generators and place it with the rest of the market does not seem appropriate. An arrangement should be found whereby risk is shared between commissioning generator and the rest of the market. Details below expand on our reasons for not supporting this modification:

The proposer overstates risk of imbalance costs on commissioning plant and provided anecdotal evidence is unnecessary and unconvincing.

Under previous arrangements a commissioning generator would have received Pool Purchase Price (PPP) for non-contracted generation, under NETA they receive System Selling Price. A generator can mitigate risk by choosing commissioning periods carefully. For example, under previous arrangements a generator commissioning during April to June 2000 generating between 09:00 and 17:00 would have received an average PPP of £35.45/MWh. For same period under NETA they would have received £11.65/MWh. In first case generator would have received revenues far above marginal cost. Under NETA generator receives a significant contribution to his costs.

A generator can, of course, make a commercial judgement about contracting their output during this period. In this case they run the risk of being exposed to System Buy Price in the event of non-delivery.

This proposal firstly removes incentives to optimise commissioning schedules to reduce costs. This is at odds with running an efficient transmission system. Secondly as risks would be different for contracted and merchant plant it would unduly influence commercial arrangements of operators and could increase costs to other participants.

There is absolutely no evidence that centrally funding commissioning costs will encourage new power station investment. Nor can it be taken as read that new power station investment promotes effective competition or drives down prices.

Justification for this modification is that it will "encourage new investment and promote effective competition". We do not understand why applying this modification retrospectively will contribute to that objective.

Where embedded generation is involved in any commissioning processes there might be an effect on the Distribution Code, in respect of connection to Distribution systems. It is possible that operational restrictions imposed by a Distributor during commissioning process could affect a generator's commissioning project. This issue needs to be examined.

Dave Morton
SEEBOARD

P25_DEF_006 – British Energy

To: Modification Secretary, Elexon

From: Rachel Ace, British Energy, 27 July 2001

British Energy does not support the proposals set out in modification P25 Commissioning Status under NETA.

NETA was introduced to increase competition in the electricity industry. This proposal would mean that commissioning stations would be held harmless to imbalance cashout with any imbalance costs being funded through the Residual Cashflow Reallocation Cashflow (RCRC). The introduction of such a change would mean that the present incumbents are in effect subsidising new entrants which is likely to harm the functioning of competitive markets and is unacceptable. We further believe that such a change would be inconsistent with the Applicable BSC Objectives.

The costs in question are relatively small when compared with the overall cost of building and commissioning a new plant hence these costs should have been factored in and should be regarded as part of the normal market costs new entrants face.

Regards

Rachel Ace
For British Energy Power and Energy Trading
British Energy Generation
Eggborough Power Ltd

P25_DEF_007 – National Grid Company

Response from National Grid on Modification Proposal P25
Commissioning Status in NETA

Whilst we cannot support the modification as currently defined, we agree that if commissioning plant is unduly penalised then it may act against the BSC objective of promoting effective competition in the generation and supply of electricity.

Issues raised by the current drafting

The proposal to refund all imbalance cost would mean that a commissioning plant could fully contract its Registered Capacity, fail to deliver and not be exposed to any penalty cost whilst collecting on the contract payments.

The principle behind the proposed addition of a new category of participation - commissioning power stations - could be better facilitated by an additional Plant based definition (eg "commissioning plant") rather than a Party based definition.

A commissioning plant would have a disincentive to perform well during commissioning if it risks being declared "commissioned" because of 7 days good performance. The incentive would be to commission quickly but badly and exploit any unused "commissioning credits". Further thoughts need to be given to how the correct incentives could be specified to commissioning plant.

In considering alternative definitions to this proposal, the distinction should be maintained between the Physical Notifications submitted to the System Operator under the Grid code and the Contact Notifications used in imbalance settlement.

P25_DEF_008 – Edison Mission Energy

Comments on Modification P25 - Commissioning Status under NETA

Summary

I am pleased to provide comments on Modification P25. These comments are provided by Edison Mission Energy (EME) on behalf of the three companies Edison First Power Ltd., First Hydro Company and Lakeland Power Ltd. EME does not support this modification proposal. My major concern is that this modification can easily be abused via over-contracting. I also believe that whilst this modification may have been necessary at the start of NETA, with falling prices it is no longer required.

There must be incentives on all companies (renewables excepted) to declare accurate Physical Notifications and to deliver to them, whether they have commissioning plant, plant returning from outage or simply delivering to contract positions on an on-going basis.

The proposal is to effectively remove these incentives for companies with commissioning plant, leaving them in a privileged position of imposing costs on the system that would need to be picked up by others. They would have little incentive to perform well, and indeed they would be in a position in which they could exploit this period for commercial gain.

Companies commissioning plant need to recognise the costs they cause. Rules should not render commissioning as a profit-making opportunity, but rather a time to plan and manage their physical position as closely as possible. They may seek to manage this contractually, or simply accept their liability for the costs they impose.

On the detail in the consultation paper.....

The claim that losses of several million pounds are possible due to the extreme nature of the Balancing Mechanism are unfounded. This estimate is projected from the Balancing Mechanism price volatility we saw in the early days of NETA, which are certainly not representative of this summer.

What needs to be recognised is not so much these costs, but the implications on imbalance prices of the proposed change. If owners of commissioning plant have no incentive to perform, then what will be the impact on imbalance prices of any Balancing Mechanism activity that is necessary to compensate?

The modification states that commissioning plant was subsidised under the Pool. Under the Pool, commissioning plant would have received the lesser of its bid price and SMP. Historically, CCGT plant has been commissioned in the summer months when both gas and Pool prices are low. There was no certainty that Pool prices would be high enough for commissioning costs to be recovered.

Under NETA, prices have now stabilised, prices that occurred during the first few weeks of NETA are no longer being seen. Daytime SSP is now in the range of £10-15/MWh. Were commissioning to take place where possible during the daytime and the output spilled, revenues would be not too dissimilar to those under the Pool.

Commissioning of plant has always been a risky and costly business. Most generators have viewed the process as having zero benefit at best. I am surprised therefore that BP considers that it should gain

positive revenues. Furthermore, there are companies that will offer insurance against plant failure of this kind which will cap the exposure in any settlement period.

A further question arises as to whether this modification should apply to plant that is returning from an extended outage. Is there a fundamental difference in the risks involved between commissioning proven technology plant and returning plant after a major refit such as the installation of FGD? Some types of renewables are perhaps more vulnerable than commissioning plant as their output is unpredictable over their lifetime but no special treatment is being provided at present to reduce their imbalance risk.

Using RCRC to fund commissioning will result in perverse incentives. It would make more sense for the market and the commissioning plant owner if commissioning took place in the winter months. With much larger volumes of generation and demand the costs of commissioning would be smeared over this greater volume and the commissioning generator would be able to achieve higher contract prices with no exposure to imbalance prices should it fail to deliver. This would not however be desirable from a system security point of view.

I hope that you find these comments useful, please do not hesitate to contact me if you wish to discuss them further.

Yours faithfully

Phil Edgington

P25_DEF_009 – Enron

Modification Proposal P25: Commissioning Status in NETA

Response by Enron Europe
27 July 2001

In principle we are in favour of P25. P25 proposes to reduce the barrier to entry caused by imbalance prices that do not reflect the fundamentals of supply and demand. This is essential for the ongoing development of a competitive market.

The current imbalance prices create a barrier to new entry because they do not reflect the fundamentals of the supply and demand balance. NETA's imbalance prices are not only a barrier to new entry, they also discriminate against any participant who does not have the option of self-balancing and/or those whose output or consumption is difficult to predict, eg, renewables, non-portfolio generators and small suppliers.

While we support P25, we also recognise that the proposal requires significant work before it could be implemented. Our response provides possible solutions to some of P25's problems.

Definition of Commissioning Plant

New plants that have never exported power previously should be granted commissioning status. Also, there may be other clearly defined cases that should result in a plant being granted commissioning status, including:
plant returning from being mothballed (eg, defined as a BM Unit that has not exported for 5 years); and
plant that has been re-powered with a new fuel and that has not exported for [2] years.

Definition of Commissioning Period

The commissioning period should be defined in such a way as to balance (i) the ability of the commissioning generator to cherry pick individual periods to include in the commissioning period against (ii) the genuine need to allow a non-continuous commissioning period. For example, a plant's commissioning phase may need to be interrupted for several months while modifications are carried out.

To achieve the balance described, we suggest the commissioning period be split into separate one-week blocks. If a BM Unit with commissioning status exports power at any time during a week, that week is considered part of the commissioning period. However, if the BM Unit does not export power during a week, that week is not considered part of the commissioning period.

Terminating the commissioning period once a plant can perform within 5% of its FPN over week is open to gaming. Rather, we propose that the commissioning period consist of 12 separate one-week blocks. Once all 12 weeks have been used, the commissioning period ends.

Definition of Commissioning Plan

A commissioning plan is unnecessary. Instead, the commissioning unit should submit its FPNs to NGC as normal.

Definition of Eligibility for Commissioning Status

If the BM Unit with commissioning status can perform within a small percentage[1] of FPN on average over a week, its imbalance payments and receipts are voided for that week. However, if the average deviation over a week between metered output and FPN exceeds a small percentage of FPN, the BM Unit loses commissioning status for that week.

By separating the eligibility for commissioning status into weekly blocks we take account of the fact that commissioning plant could occasionally have a large unexpected changes in output. These would at worst repeal the commissioning status for a week – not for the entire commissioning period, as P25 currently proposes.

Assumed Contract Level

To void imbalance charges or payments an assumption must be made as to the BM Unit's contract level. Otherwise, a BM Unit with commissioning status could sell forward contracts with the knowledge that any imbalance charges will be voided. We suggest that for the purpose of determining which imbalance charges are voided, P25 assume a BM Unit's contract level equals its FPN.

Entitlement to Receive RCRC

During those weeks when a commissioning unit is not eligible for imbalance charges or receipts it should not be entitled to receive RCRC.

[1] To be defined.

P25_DEF_010 – London Electricity

London Electricity does not believe that this modification would improve on BSC objectives as it distorts incentives within the market which will not increase efficiency or stability and hence competition in the longer term.

We do not agree with this modification proposer's interpretation that the BSC objective of 'promoting effective competition in the generation and supply of electricity' means the code should actively encourage new generation capacity. This would be inefficient. Instead, the BSC should encourage competition by facilitating the entry of new generators, rather than actively encouraging new capacity itself.

This modification raises questions about the classification of commissioning generators and the ability that they would have under this modification to 'game' the market. There is a potential to manipulate the market in various ways. The first is that there is no incentive for the commissioning generator to balance their plant. This could lead to price spikes where NGC has to accept expensive plant at short notice. This may benefit a portfolio generator as they could either offer their flexible plant in the BM at an inflated price or they would be aware of a potential price spike from another source and so could adjust their position accordingly.

Commissioning generators would also be able to retain their special status by deliberately ensuring that they do not follow their submitted plans for a couple of settlement periods within a seven day period. This would allow them to retain commissioning status for the maximum permitted time even if they are technically competent enough to follow their FPNs.

We do not think that commissioning generators should receive a subsidy from existing market participants in the form of an RCRC payment as this introduces uncertainty for these players. RCRC is a payment which reallocates participants' money back to them. It is not a fund that can be appropriated to finance other businesses.

However, despite our overwhelming concerns with this particular modification, we do accept that commissioning generators do face difficulties that more established plant do not. We support the principle of easing this burden on new plant but do not think this is a suitable way of approaching the problem.

As an alternative, we suggest that commissioning generators should submit an FPN of zero and spill their production onto the system. These generators would then receive System Sell Price for their output. This would allow a positive revenue stream to the generator without being subsidised by other participants through RCRC, although there might have to be a floor level to SSP to prevent large penalties for plant. Commissioning generators would have to supply NGC with a plan of their intended output to assist with the balancing of the system. This does not remove the problem of potential gaming by generators to maintain their special status and there would be an issue of to what level the floor of SSP should be set to minimise the impact on existing participants . However, we believe this is a more acceptable solution to this problem than the proposed modification.

Liz Anderson (London Electricity, South Western Electricity, Jade Power and Sutton Bridge Power)

P25_DEF_011 – Northern Electric

27th July 2001

Modifications
ELEXON
3rd Floor
1 Triton Square
London
NW1 3DX

Dear Sir

Modification Proposal P25:
Commissioning Status in NETA

Northern Electric welcomes the opportunity to comment on the modification for Commissioning Status in NETA.

Having considered the options outlined in the 'Initial Assessment of Modification Proposal P25', Northern Electric does not support this modification.

Northern Electric are opposed to the introduction of 'commissioning status' plants because subsidising new entrants does not necessarily create effective competition which this proposal implies.

The proposal states *"based on the system prices of NETA thus far, it will be virtually impossible for commissioning plants to gain positive revenues for their generation*", but the commissioning plants could operate spill contracts, and the SSP would guarantee income.

Analysis of energy imbalance prices since Go-Live show that prices are becoming less volatile. For example the daily average of SBP can still be volatile, but the trend has been downwards with average SBP daily prices falling from around £90/MWh in the first week since Go-Live to below £30/MWh in week 16.

In a new market place such as NETA, volatile prices in the beginning are to be expected but they will stabilise, which will ensure positive revenues for commissioning plants. It would be wrong to subsidise these plants so soon after Go-Live when prices are now only beginning to stabilise.

Yours faithfully

Lesley Mulley
Industry Communications Manager

P25_DEF_012 – Scottish & Southern

Commissioning Status in NETA

Response for Scottish and Southern Energy, Southern Electric, Keadby Generation and SSE Energy Supply Limited.

The Scottish and Southern Energy Group does not support this Modification Proposal.

The proposal suggests that the Residual Cashflow Reallocation Cashflow should be used to offset the imbalance costs incurred by commissioning plant. It argues that this would help to promote effective competition in generation and supply of electricity.

We believe commissioning plant, like all other categories of participant should have some incentive to minimise the impact on the system and minimise energy imbalance. If the proposals were implemented we believe there would be no such incentive.

We believe that it is more appropriate for the relevant parties to consider the energy imbalance during the project initiation phase along with all other commercial and project risks.

We believe the contrast between the Pool and NETA is overstated. If plant is uncontracted it will be paid SSP. SSP throughout the day has averaged approx. £10 since the start of NETA. This income should help offset commissioning costs.

We can see no justifiable reason why other participants should be required to compensate commissioning plant for such exposure. Indeed we believe that it would be ineffective and against competition to allow this category of participant to be subsidised by other participants, some of which would argue they are having their own difficulties operating under NETA.

Beverley Grubb
Market Development
Scottish and Southern Energy

P25_DEF_013 – Powergen

Powergen UK plc ('Powergen') welcomes the opportunity to comment on MODIFICATION PROPOSAL NO: P25 COMMISSIONING STATUS IN NETA

Powergen provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited, and Cottam Development Centre Limited.

Powergen does not support this modification. Powergen's reasons for not supporting this modification are detailed below.

Powergen believes that this Modification is not necessary, as there is already a low cost/low risk route for parties to commission plant. This entails commissioning plant simply spilling their output into the Balancing Mechanism and receiving SSP for the generated output. Under current market conditions the bulk of their fuel cost will be recompensed. The generator can only incur significant cash-out costs if it is cashed out at SBP. For the Party to suffer SBP, it has taken the commercial decision to trade off commissioning plant whose output is uncertain. Powergen believes that the Party who wishes to trade off commissioning plant should suffer the same imbalance risks as any other Party. If the generator just spills and takes SSP then its only exposure is when SSP goes negative. Under current market conditions, the owner of commissioning plant should be able to predict and avoid periods of negative and low SSP.

Parties constructing new generating plant need to budget for the cost of commissioning and capitalise these commissioning costs. These commissioning costs are relatively small in relation to the total cost of constructing and bringing into service new generation plant. The industry at large should not have to fund the commissioning costs of Parties who have failed to allow sufficient reserves for the cost of commissioning. If commissioning slips due to engineering problems, receiving SSP for the output should allow recovery of the majority of the fuel costs and any remaining loss should be a matter between generator and plant contractor.

Powergen does not believe that the proposed amendment is in accordance with B 1.2.1 b iii where the wording "promoting effective competition" should not be construed as "cross subsidising new entry". More pertinently, Powergen believes that the Proposed Modification may be in breach of B 1.2.1 c which states " that the Code is given effect without undue discrimination between Parties or classes of Party". Making commissioned parties pay for commissioning party's imbalance costs could be construed as discrimination between classes of party.

Under the Pool, it is correct for the proposer to say that the rest of the industry effectively subsidised the commissioning of new power plant. Such misallocation of costs was one of the fundamental reasons for the introduction of NETA. The current rules under NETA are both transparent and equitable. If any Party increases costs to the system, then the charging methodology ensures that this party has to pay for its actions. Powergen believes it would be a perverse and retrograde step to accept a Modification that attempts to replicate an error under the Pool and discriminates between Parties.

The definition of New Plant and Commissioning Plant will be difficult if accusations of discrimination are to be avoided. Returning to service of mothballed/decommissioned plant, installation of FGD, re-powering and plant upgrades are examples of circumstances when the generation plant effectively has to be recommissioned.

If clarification of the above points is required, please to not hesitate to contact me.

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