JANUARY 2003

DRAFT MODIFICATION REPORT

MODIFICATION PROPOSAL P100 – Extension of Demand-side Trading Units

Prepared by ELEXON on behalf of the Balancing and Settlement Code Panel

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Name	Organisation
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The Gas and Electricity Markets Authority	Ofgem
Each BSC Panel Member	Various

c References

Ref.	Document
1.	Initial Written Assessment for P100 (version 1.0)
2.	Assessment Report for P100 (version 1.1)
3.	Modification Proposal to the Use of System Charging Methodology UoSCM-M-07 "Proposed change to the TNUoS Liability Rules for Embedded Licence Exemptable Generations and Distribution Interconnectors" available at: http://www.nationalgridinfo.co.uk/charging/pdfs/UOSCM-M-07_Changes_to_rules_for_LEGs.pdf

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d Intellectual Property Rights and Copyright

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Modification process, and the resultant findings of this report, the Balancing and Settlement Code Panel (`the Panel') recommends that:

> **Modification Proposal P100 should be made, with an Implementation Date of 5 November 2003 if an Authority Decision is received by 25 April 2003 and an Implementation Date of 25 February 2004 if an Authority Decision is received after 25 April 2003 and before 15 August 2003.**

1.2 Background

Modification Proposal P100 (P100) - 'Extension of Demand-side Trading Units in order to increase the Competitiveness of the Market for Embedded Benefits' was submitted on 2 September 2002 by Slough Energy Ltd.

P100 addresses alleged shortcomings related to the trading of embedded benefits. It seeks to amend Section K of the BSC to create one default Trading Unit (to be called a `Base Trading Unit') for each GSP Group, which would comprise all Supplier BM Units and all participating Exempt Export BM Units in the relevant GSP Group. The Proposer states that whilst each relevant BM Unit would by default belong to the relevant Base Trading Unit, an Exempt Export BM Unit should have the option of exiting at the behest of its Lead Party. Secondly, the Proposer suggests that each Exempt Export BM Unit in a Base Trading Unit should be allowed to choose its Production Consumption Status (P/C Status) independently. The Proposer also believes that Supplier Meter Registration System (SMRS) registered non-default Supplier BM Units composed of licence exemptable generation should be treated as Exempt Export BM Units.

1.3 Rationale For Recommendations

The Panel considered the Assessment Report for P100 and noted that the Modification Group was evenly split on whether or not P100 would better facilitate Applicable BSC Objective (c). The Panel agreed with conclusion of the Assessment Report that P100 would not materially affect Applicable BSC Objective (d), and agreed by a majority that the arguments in favour of P100 outweighed those against P100 with respect to Applicable BSC Objective (c). The Panel therefore agreed that P100 should be submitted to the Report Phase with a provisional recommendation that the Proposed Modification be made.

The Panel also noted the impact assessments undertaken during the Assessment Procedure and agreed that the Modification Proposal P100 should be made with an Implementation Date of 5 November 2003 if an Authority Decision is received by 25 April 2003 and an Implementation Date of 25 February 2004 if an Authority Decision is received after 25 April 2003 and before 15 August 2003.

The draft Modification Report was sent out for consultation on 17 December 2002 with responses due back on 27 December 2002. Ten responses (representing 27 BSC Parties and 2 non-BSC Parties) were received to the consultation questionnaire:

- 3 respondents (1 BSC Party, 2 non-BSC Parties) supported P100.
- 6 respondents (25 BSC Parties) did not support P100.

- 1 response (1 BSC Party) was `No Comment.'

No new substantial arguments were raised. A summary of the arguments presented during the consultation is given in Section 8 of this report.

2 INTRODUCTION

This Report has been prepared by ELEXON Ltd., on behalf of the Balancing and Settlement Code Panel ('the Panel'), in accordance with the terms of the Balancing and Settlement Code ('the Code'). The Code is the legal document containing the rules of the balancing mechanism and imbalance settlement process and related governance provisions. ELEXON is the company that performs the role and functions of the BSCCo, as defined in the Code.

This Modification Report is addressed and furnished to the Gas and Electricity Markets Authority ('the Authority') and none of the facts, opinions or statements contained herein may be relied upon by any other person.

An electronic copy of this document can be found on the BSC Website, at www.elexon.co.uk

3 HISTORY OF PROPOSED MODIFICATION

Modification Proposal P100 (P100) - 'Extension of Demand-side Trading Units in order to increase the Competitiveness of the Market for Embedded Benefits' was submitted on 2 September 2002 by Slough Energy Ltd, and the Initial Written Assessment (Reference 1) was considered by the BSC Panel at their meeting on 12 September 2002. The Panel agreed to submit P100 to a 3-month Assessment Procedure under the guidance of the Settlement Standing Modification Group, augmented by industry experts with specialist knowledge of embedded generation (`the P100 SSMG').

The P100 SSMG met four times (on 25 September, 16 October, 11 November and 28 November 2002) to consider P100. An Assessment Procedure consultation was issued on 13 November 2002 to all BSC Parties and certain non-BSC Parties representing licence exempt generators. Responses were also invited from other interested persons and entities via the ELEXON web-site. As a result, 14 responses (representing 46 BSC Parties and 5 non-BSC Parties) were sent before the consultation deadline on 26 November 2002. One late response (representing 1 non-BSC Party and supporting P100) was also received on 11 December 2002. In summary, 7 responses (4 BSC Parties, 6 non-BSC Parties) supported P100 whilst 7 responses (41 BSC Parties) did not support P100. One response (1 BSC Party) was `No Comment'.

As noted above, the P100 SSMG could not reach a majority decision on whether or not the Proposed Modification would better facilitate the Applicable BSC Objectives. The P100 SSMG considered arguments for and against P100, and noted the even split of views within the group and as represented by responses to the Assessment Procedure consultation. The arguments in favour of P100 suggested that the Proposed Modification would remove certain market imperfections and thereby create the economic conditions under which competition for embedded benefits could increase. The arguments against P100 suggested that the Proposed Modification would distort the market by forcing Suppliers to pay too much for transmission services and that there were already sufficient provisions in the Code for the competitive trading of embedded benefits.

The P100 SSMG also noted the Transmission Company Charging Review which resulted in modification proposal UoSCM-M-07 (Reference 3) to the Use of System Charging Methodology, seeking to amend the basis of Transmission Network Use of System (TNUoS) Charging for embedded generators. Given

that a decision on UoSCM-M-07 is likely to be finalised by mid-January, the P100 SSMG considered a possible extension of the Assessment Procedure for P100, but felt that the arguments for and against P100 are too fundamental and robust for a consensus decision to emerge. The group also noted that other embedded benefits would not be affected by the Transmission Company Charging Review. The P100 SSMG therefore decided to present both sides of the argument to the Panel without a formal recommendation on whether or not P100 should be made.

The P100 SSMG then considered the Implementation Date for P100 in view of the CVA Programme Release Strategy adopted by ELEXON. The Proposer suggested that, due to commercial reasons, P100 should be implemented as a stand-alone project on or around 1 September 2003. The P100 SSMG asked ELEXON to investigate the feasibility of various Implementation Dates. After further analysis, ELEXON concluded that implementing P100 as a stand-alone project on 1 September 2003 would incur additional costs and entail significant risk to standard releases planned in June 2003 and November 2003. With this information in mind, the majority of the P100 SSMG favoured an Implementation Date of 5 November 2003 if an Authority Determination is received before 25 April 2003, and 25 February 2004 if an Authority Determination is received after 25 April 2003 but before 15 August 2003.

The Assessment Report for P100 was submitted for consideration at the Panel meeting of 12 December 2002. The Panel considered the analysis undertaken by the P100 SSMG and decided by a substantial majority that the arguments in favour of P100 outweighed the arguments against P100. The Panel therefore agreed that P100 should be submitted to the Report Phase with a recommendation that the Proposed Modification be made. The Panel also noted the Transmission Company Charging Review and noted that the Authority is responsible for ensuring consistency across different governance arrangements.

The Panel felt that, in the light of the views expressed in the Assessment Report and the Assessment Procedure consultation, it was not possible to justify a stand-alone implementation for P100. The Panel therefore agreed that Modification Proposal P100 should be made with an Implementation Date of 5 November 2003 if an Authority Decision is received by 25 April 2003 and an Implementation Date of 25 February 2004 if an Authority Decision is received after 25 April 2003 and before 15 August 2003.

The draft Modification Report was sent out for consultation on 17 December 2002 with responses due back on 27 December 2003. 10 responses were received to the consultation questionnaire, with 3 responses (1 BSC Parties and 2 non BSC Parties) supporting the Panel's provisional recommendation and 6 responses (25 BSC Parties) not supporting P100. One further response (1 BSC Party) was 'No comment'. No new arguments were raised. A summary of the arguments raised during the consultation is given in Section 8 of this report.

The draft Modification Report was presented to the Panel meeting of 16 January 2003 and at this meeting the Panel agreed [insert details of any Panel decisions that take place at the Panel meeting].

4 DESCRIPTION OF THE MODIFICATION

4.1 Proposed Modification

P100 addresses alleged shortcomings related to the trading of embedded benefits. It seeks to amend Section K of the BSC to create one default Trading Unit (to be called a `Base Trading Unit') for each GSP Group, which would comprise all Supplier BM Units and all participating Exempt Export BM Units in the relevant GSP Group. The Proposer states that whilst each relevant BM Unit would by default belong to the relevant Base Trading Unit, an Exempt Export BM Unit should have the option of exiting at the behest of its Lead Party. Secondly, the Proposer suggests that each Exempt Export BM Unit in a Base

Trading Unit should be allowed to choose its Production Consumption Status (P/C Status) independently. The Proposer also believes that Supplier Meter Registration System (SMRS) registered non-default Supplier BM Units composed of licence exemptable generation should be treated as Exempt Export BM Units.

4.2 Alternative Modification

The P100 SSMG did not identify an Alternative Modification.

5 RATIONALE FOR RECOMMENDATIONS

P100 was raised in order to better facilitate Applicable BSC Objectives (c) and (d):

> (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; and
>
> (d) Promoting efficiency in the implementation and administration of the balancing and settlement arrangements.

At their meeting on 12 December 2002, the Panel considered the Assessment Report for P100 and noted that the Modification Group was evenly split on whether or not P100 would better facilitate the Applicable BSC Objectives. The Panel agreed with the conclusion of the Assessment Report that P100 would not materially affect Applicable BSC Objective (d). The Panel also noted that the P100 SSMG could not reach a majority decision on whether or not P100 would promote effective competition in the generation and supply of electricity. The arguments in favour of P100 suggested that the Proposed Modification would remove certain market imperfections and thereby create the economic conditions under which competition for embedded benefits could increase. The arguments against P100 suggested that the Proposed Modification would distort the market by forcing Suppliers to pay too much for transmission services and that there were already sufficient provisions in the Code for the competitive trading of embedded benefits[1]. The Panel felt by a substantial majority that the arguments in favour of P100 outweighed those against P100. The Panel therefore agreed that P100 should be submitted to the Report Phase with a provisional recommendation that the Proposed Modification be made.

The Panel also noted the impact assessments and analyses undertaken during the Assessment Procedure. The Panel felt that, in the light of views expressed in the Assessment Report and the Assessment Procedure consultation, it was not possible to justify a stand-alone implementation for P100. The Panel agreed therefore that Modification Proposal P100 should be made with an Implementation Date of 5 November 2003 if an Authority Decision is received by 25 April 2003 and an Implementation Date of 25 February 2004 if an Authority Decision is received after 25 April 2003 and before 15 August 2003.

6 LEGAL TEXT TO GIVE EFFECT TO THE MODIFICATION

Legal Text is provided as Annex 2 of this draft Modification Report. No further comments were received on the draft legal text during the final consultation. As a result, the legal text agreed by the P100 SSMG has been retained.

[1] The details of these arguments, together with the analysis undertaken to support them, are summarised in Section 4 of the Assessment Report for P100 (Reference 2).

7 ASSESSMENT

This section of the report summarises the assessment carried out by the P100 SSMG during the Assessment Procedure. Full details are contained in the P100 Assessment Report (Reference 2), which can be found on the BSC Website at www.elexon.co.uk.

The P100 SSMG could not reach a majority decision whether or not the Proposed Modification would better facilitate the Applicable BSC Objectives. The P100 SSMG considered arguments for and against P100, and noted the even split of views within the group and as represented by responses to the Assessment Procedure consultation. In summary, the arguments in favour of P100 suggested that the Proposed Modification would remove certain market imperfections and create the economic conditions under which competition for embedded benefits could increase. The arguments against P100 suggested that the Proposed Modification would distort the market by forcing Suppliers to pay too much for transmission services and that there were already sufficient provisions in the Code for the competitive trading of embedded benefits.

In greater detail, the arguments in favour of P100 were:

1. Embedded benefits are based on avoided use of system. The latter is physical, and the resulting benefit should not depend on contractual agreements. If payment of embedded benefit is legitimate to begin with, it should be legitimate on the same terms for all embedded generation.
2. Embedded benefits could be considered similar to Renewables Obligation Certificates (ROC's) and embedded generators can be viewed as providing transmission services to Suppliers in their GSP Group, whether or not a particular Supplier actually buys energy from a particular embedded generator. Demand is created by customers, not by Suppliers. System use is avoided to the same extent regardless of the identity of the Supplier responsible for those customers.
3. P100 would remove market power from large vertically integrated companies. Furthermore, the Proposer would like the Modification Report to reiterate that, in their view, the analysis undertaken during the Assessment Procedure corroborated their contention that a number of large Suppliers dominate the Supply market within their respective GSP Groups[2].
4. P100 would encourage market entry of new embedded generation, and would increase market liquidity at smaller volumes.
5. P100 gives LEGs with embedded output the opportunity to reach agreement with any meter registrant to acquire its embedded benefits, enabling LEGs to sell these benefits to a much wider market, in contrast with the current situation where LEGs can only trade embedded consumer demand under the generators' GSP group. By widening the number of potential counterparties in this way, P100 would create the economic conditions under which competition for embedded benefits should increase, enabling LEGs to realise their value without the existing market constraints. P100 would therefore promote effective competition in both the generation and supply of electricity.
6. P100 would prevent the "defaulting" of embedded benefits to NHH Suppliers via the GSP Group Take Correction Factor.
7. P100 would reduce the potentially large number of Trading Units by creating a minimum number of Base Trading Units in accordance with the intended meaning of the Class 4 Trading Unit concept.

[2] As noted in the Assessment Report, the P100 SSMG could not reach a consensus decision on the correct economic interpretation of the data presented in the Assessment Report.

The arguments against P100 were:

1. License Exemptable Generators can already avoid TNUoS Charges without belonging to a Class 4 Trading Unit, if they do not wish to participate in the Balancing Mechanism.

2. It is true that in the absence of Class 4 Trading Units, some embedded benefits accrue to all NHH Suppliers via the GSP Group Take Correction process, but these benefits are smeared across the GSP Group. As a result, certain Suppliers are willing to pay in order that they can contract individually with embedded generators and realise specific benefits. This is a matter for commercial negotiation.

3. Net charging is justified because generation and demand trade with each other within the distribution system or GSP Group. Embedded generation cannot realise benefits in the absence of Suppliers and vice versa. Both play a part, and both must gain from the resulting avoidance of system use. Embedded benefits may be viewed as a communal good which must be shared. P100 would force Suppliers to pay too much for transmission services.

4. P7 provided sufficient flexibility for Licence Exempt Generators to contract with smaller Suppliers in a competitive environment. The Base Trading Units envisioned by P100 could arise by voluntary contract in the framework of P7. The compulsory nature of P100 is a crucial and undesirable difference.

5. The current rules for embedded benefits already include an element of income redistribution and cross subsidy. This situation will be exacerbated by the adoption of P100, which eliminates the ability of Suppliers to recover part of the communal benefit through contractual means. P100 would distort market signals by an arbitrary redistribution of money. The effect would be to increase electricity prices paid by the end customer.

6. Large Suppliers should not be penalised because of their size. Larger size affords better risk management and administrative efficiency. As embedded generators are small, they can contract with smaller Suppliers if they choose. A number of Modification Group members believe that the analysis undertaken during the Assessment Procedure was consistent with the structure of a developing market and indicated that there are a sufficient number of Suppliers in every GSP Group with which small generators can contract[3].

7. Over-generation is a problem for the market as a whole. Currently, all generators have a weak bargaining position. The problems are not specific to embedded generation.

The P100 SSMG issued a High Level Impact Assessment (HLIA) on 31 October 2002 and a Detailed Level Impact Assessment (DLIA) on 13 November 2002. The BSC Central Service Provider, representing the relevant BSC Agents, indicated that the change specific costs for P100 are estimated to be £162,000. The Impact Assessment also quoted for BSC Central Service Provider Project Overhead costs of £175,300 if P100 were implemented as a stand-alone project. The expected software development time was quoted as 15 weeks. If P100 were implemented as a stand-alone project, ELEXON would also incur costs (currently estimated as 250 man days plus audit costs). It was also believed that a stand-alone project would result in significant risk to CVA Programme Releases planned in June 2003 and November 2003.

An Assessment Procedure consultation was issued on 13 November 2002 to all BSC Parties and certain non-BSC Parties representing licence exempt generators. Responses were also invited from other interested persons and entities via the ELEXON web-site. As a result, 14 responses (representing 46

[3] As noted above and in the Assessment Report, the P100 SSMG could not reach a consensus decision on the correct economic interpretation of the data presented in the Assessment Report.

BSC Parties and 5 non-BSC Parties) were sent before the consultation deadline on 26 November 2002. One late response (representing 1 non-BSC Party and supporting P100) was also received on 11 December 2002. In summary, 7 responses (4 BSC Parties, 6 non-BSC Parties) supported P100 whilst 7 responses (41 BSC Parties) did not support P100. One response (1 BSC Party) was `No Comment'.

The P100 SSMG also noted the Transmission Company Charging Review which resulted in modification proposal UoSCM-M-07 to the Use of System Charging Methodology, seeking to amend the basis of Transmission Network Use of System (TNUoS) Charging for embedded generators. Given that a decision on UoSCM-M-07 is likely to be finalised by mid-January, the P100 SSMG considered a possible extension of the Assessment Procedure for P100, but felt that the arguments for and against P100 are too fundamental and robust for a consensus decision to emerge. The group also noted that other embedded benefits would not be affected by the Transmission Company Charging Review. The P100 SSMG therefore decided to present both sides of the argument to the Panel without a formal recommendation on whether or not P100 should be made.

The P100 SSMG then considered the Implementation Date for P100 in view of the CVA Programme Release Strategy adopted by ELEXON. The Proposer suggested that, due to commercial reasons, P100 should be implemented as a stand-alone project on or around 1 September 2003. The P100 SSMG asked ELEXON to investigate the feasibility of various Implementation Dates. After further analysis, ELEXON concluded that implementing P100 as a stand-alone project on 1 September 2003 would incur additional costs and entail significant risk to standard releases planned in June 2003 and November 2003. With this information in mind, the majority of the P100 SSMG favoured an Implementation Date of 5 November 2003 if an Authority Determination is received before 25 April 2003, and 25 February 2004 if an Authority Determination is received after 25 April 2003 but before 15 August 2003.

8 SUMMARY OF REPRESENTATIONS

The draft Modification Report was sent out for consultation on 17 December 2002 with responses due back on 27 December 2002. Ten responses (representing 27 BSC Parties and 2 non-BSC Parties) were received to the consultation questionnaire:

- 3 respondents (1 BSC Party, 2 non-BSC Parties) supported P100.
- 6 respondents (25 BSC Parties) did not support P100.
- 1 response (1 BSC Party) was `No Comment.'

A table summarising the responses received and the actual responses themselves can be found in Annex 1 of this report. No new substantial arguments were raised during consultation on the draft Modification Report for P100.

Three respondents (1 BSC Party, 2 non-BSC Party) expressed support for P100. One of the non-BSC Parties suggested that their support was qualified by concern over the possible migration of licence exemptable generators to the CMRS. This issue was discussed by the P100 SSMG and noted in the Assessment Report but it was not felt to be a significant risk factor by the Modification Group. Another respondent (1 BSC Party) strongly supported P100 and suggested that when assessing the relative weight of industry support for P100, the Panel should take into consideration the Christmas period and the resource constraints under which licence exemptable generators work. The respondent also suggested certain clarifications to the draft Modification Report, which have been incorporated into the final version.

Six respondents (25 Parties) did not support P100 and reiterated their previous arguments developed during the Assessment Procedure against the Proposed Modification. A number of respondents felt that no business case had been made for P100 and suggested that there was lack of support for P100 from BSC Parties.

ANNEX 1 REPRESENTATIONS

A1.1 Summary of Representations

The draft Modification Report was sent out for consultation on 17 December 2002 with responses due back on 27 December 2002. The table below gives a summary of the responses and the actual responses received are attached below.

	Responses	BSC Parties	Non BSC Parties
For	3	1	2
Against	6	25	0
No Comment	1	1	0
Total	10	27	2

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented	Views
1.	SEEBOARD Energy	P100_DR_001	1	0	Against
2.	Gaz de France Energy	P100_DR_002	0	1	For
3.	Alcan Primary Metal – Europe.	P100_DR_003	0	1	For
4.	British Gas Trading Ltd	P100_DR_004	1	0	Against
5.	Slough Energy Supplies Ltd	P100_DR_005	1	0	For
6.	Powergen UK Plc	P100_DR_006	1	0	Against
7.	LE Group Plc	P100_DR_007	7	0	Against
8.	Aquila Networks	P100_DR_008	1	0	No Comment
9.	Innogy plc	P100_DR_009	9	0	Against
10.	Scottish Power UK plc	P100_DR_010	6	0	Against

A1.2 Detailed Responses

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 unsupportable 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 assymetrical 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