ScottishPower

energy management

Robert Hull
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10 April 2007

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Dear Robert,

Zonal transmission losses – assessment of proposals to modify the Balancing and Settlement Code
February 2007

Thank you for the opportunity to comment on your impact assessment and consultation on the four modification proposals (P198, P200, P203, P204) and two alternatives (P198 Alternative and P200 Alternative) to the Balancing and Settlement Code (BSC) to alter the rules under which the costs of transmission losses are allocated to users of the electricity transmission system. This response is submitted on behalf of the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

On the basis of the evidence presented within the impact assessment and also that presented throughout the assessment procedures for each modification we do not consider that any of the four modification proposals or two alternatives are better than the current uniform allocation of losses. We fully support the recommendations of the BSC Panel in overwhelmingly rejecting all of the zonal losses proposals.

The impact assessment does not clearly set out that the estimated level of benefits from implementation of each of the options is dependent on the accuracy of the modelling while the level of costs transferred between generators and between suppliers is determined by the option chosen. Thus some generators and suppliers will be faced with significantly increased costs while the overall benefits are uncertain.

We do not consider that the impact assessment and consultation properly assesses the likely impact of implementing zonal losses, fully considers each of the modification proposals, identifies the impacts on the various parties affected by the proposals nor does it bring out the degree of opposition from the industry to each of the proposals.

- The major benefits claimed arise from changes in generation output pattern as a result of short-term despatch decisions being influenced by the zonal allocation of losses, principally from coal generation in the north to gas generation in the south. In our experience as owners and operators of coal generation in Scotland and gas generation in the south of England there are very few situations when the comparative costs of coal generation and gas generation are

sufficiently close such that the methodology for allocation of transmission losses would result in re-despatch of generation from coal in the north to gas in the south. Coal and gas prices are determined by world events and can move significantly and are very rarely at a level where the marginal cost of coal generation is within 2-3% lower than the marginal cost of gas generation and thus zonal allocation of losses would result in re-despatch. In the majority of situations where coal generation is more than 3% cheaper than gas then zonal losses will penalise northern coal generators for continuing to operate economically and efficiently. Where gas generation is cheaper than coal generation then southern gas generators will be rewarded for doing what they would otherwise have done. We therefore consider that the impact assessment significantly overestimates the likely reduction in transmission losses resulting from the zonal allocation of losses.

- The impact assessment does not set out the impacts of P200, allocation of zonal losses with a mandatory hedging scheme for generators. P200 is not included in any of the main tables and no quantification of the effects of hedging is included, merely stating that hedging would have a lower impact and would be expected to produce weaker signals. There is no recognition that the marginal signal strength under P200 is the same as under P198 and P203 nor of the benefits of removing the windfall gains and losses of P198 and P203. We do not consider that the impact assessment has sufficiently considered the direct and indirect impacts of P200 for it to be compared with the other proposals.

- The impact assessment does not set out the impacts of the various proposals on parties affected by them. In particular it fails to point out that nuclear and renewable generators will be significantly adversely impacted by P198 and P203 with no change in their behaviour and that this adverse impact would be largely mitigated in P200 and to a lesser extent in P204. Nuclear and much renewable generation by their nature are located distant from load and population centres and being self despatch and run as base load will not be affected by re-despatch. It is inconsistent to allocate losses on a marginal zonal basis, as is done in P198 and P203, to existing base load plant which has no credible option open to it to mitigate these increased charges other than closure.

- The impact assessment and consultation fails to bring out the degree of opposition to each of the proposals from the BSC Panel, the body considering the modifications on behalf of the industry. P198 proposing zonal allocation of losses was unanimously rejected and its alternative with seasonal loss factors and phasing rejected by a significant majority. P200, which would delay the adverse impact of zonal losses by allowing generators to hedge their loss factors for 15 years, and its alternative with seasonal loss factors were both rejected unanimously. P203 allowing the loss factors for each zone to vary seasonally was rejected by a significant majority. P204 which significantly weakens the zonal signals by ensuring that no generator or supplier is credited with negative variable losses was also overwhelmingly rejected.

We look forward to responding to Ofgem's consultation on the Authority's "minded-to" views in advance of the Authority reaching final decisions. If the Authority's "minded-to" views are contrary to the clear recommendations of the BSC Panel then we do not consider that it would be appropriate for the period for such a consultation to be shorter than the period for this consultation. Sufficient time should also be allowed for respondents to consider the points made in other parties' response to this consultation for possible inclusion in their response to the "minded-to" consultation. Ofgem should therefore publish these responses as soon as possible.

Our response to the detailed questions in the consultation are set out below. We have also included in Appendix 1 our responses at each stage of the assessment procedure for each modification.

I hope you find these comments useful. Should you wish to discuss any of these points further then please do not hesitate to contact me.

Yours sincerely,

Alex MacKinnon
Regulation and Trading Arrangements Manager

Zonal transmission losses – assessment of proposals to modify the Balancing and Settlement Code
February 2007

ScottishPower response

Direct impacts

Question 1: Do respondents consider we have appropriately summarised the direct impacts of the proposed and alternative modifications?

Impact on the allocation of losses volumes

There are major flaws in the quoted results from the OXERA modelling reported in Tables 2.1a and 2.1b. The text states the seasonal estimates for P203 show, for each zone, a degree of variance around the annual average as set out in P198. This is not the case for the East Midlands zone where in both tables the annual P198 average is outwith the range of the seasonal P203 values and for the South of Scotland zone where in both tables the annual P198 average is the same as the summer P203 value and does not appear to be influenced by the winter and autumn values.

The text points out that under P203 a generator in the South of Scotland zone would on average in the winter need to generate 5.5% more electricity than a generator in the South Western zone in order to be credited with having sold the same amount of energy. With transmission losses running at around 2% on average such an extreme signal cannot be a better reflection of the costs of transmission losses than the current system of uniform allocation of losses across the GB network.

How transmission loss multipliers (TLMs) might change over time

The quoted OXERA analysis of the possible path of generator TLMs for P198 and P203 from 2006 to 2014 shows such year to year volatility that the validity of the modelling must be brought into question. Under P198 the additional generation required from a generator in the North of Scotland zone compared to one in the South Western zone in order to be credited with having sold the same amount of energy changes from 4.8% in 2010 to 1.6% in 2011. The winter results for P203 are even more extreme with the equivalent figure changing from 5.4% in 2012 to 0.3% in 2013. Of the options quoted in the tables P204 has the greatest stability with P198 and P203 showing extreme volatility for the two Scottish zones.

Impact on the total volume of losses

The extent to which the implementation of zonal losses reduces the total volume of losses is highly sensitive to the assumptions made in the modelling. This is not brought out in the impact assessment. Nuclear and renewable generation which self despatches and runs as base load will not change its generation output patterns as a result of short-term despatch decisions being influenced by the zonal allocation of transmission losses. Given the preponderance of coal generation in the north and gas generation in the south significant re-despatch from north to south resulting in reduced losses will in theory only occur when the marginal cost of coal generation before losses are allocated is close to but lower than the marginal cost of gas generation. This in our view is an unlikely scenario which has only occurred rarely in the past and we believe is unlikely to occur frequently in the future.

Of course if the losses signal is made more extreme then the theoretical re-despatch from coal generation in the north to gas generation in the south will increase. However a signal that is too

extreme will result in increased fuel costs as more expensive gas is purchased compared to cheaper coal. Again no mention of this inefficiency is brought out in the impact assessment. As GB becomes an importer of gas as well as an importer of coal then an inappropriate losses signal could result in import fuel costs being higher than they should be.

The OXERA wholesale electricity market model on which the results quoted in the impact assessment are based is not a true reflection of the current GB electricity market nor of the anticipated market from 2007/08 to 2011/12 and beyond. The OXERA model ranks available generation on the basis of short-run marginal costs and then despatches the generators against total demand. While this was a reflection of the arrangements under the Pool that operated in England & Wales from privatisation in 1990 up to 2001 it does not reflect the New Electricity Trading Arrangements (NETA) introduced in England & Wales in 2001 nor the British Electricity Trading and Transmission Arrangements (BETTA) which extended NETA across GB in 2005.

Under BETTA around 95% of electricity is traded in forward, futures and short-term markets through bilateral contracts struck over a scale of time ranging from within-day to several years ahead. Generators trade bi-laterally at portfolio level and would then only re-despatch within their own portfolios if the marginal generation costs of their individual stations changed as a result of zonal allocation of losses. Thus for 95% of the market short term re-despatch decisions will only be taken within each portfolio generator's own portfolio and thus a gas station owned by a southern generator would not be re-despatched as a replacement for a coal station owned by a northern generator. The OXERA model assumes erroneously that such re-despatch would occur and thus overestimates the level of re-despatch and the consequent effect on overall losses.

The impact assessment does not recognise that introducing zonal losses will require the removal of National Grid Electricity Transmission's (NGET) incentive to reduce generators' losses. Under zonal losses generators will be including the costs of locational losses in their bids and offers and thus NGET cannot be given an additional incentive to reduce losses in its system operator incentive scheme over and above its incentive to reduce the costs of procuring the necessary services from generators which already have the costs of losses incorporated. We believe it would be more effective to retain the current average transmission losses scheme and also to incentivise NGET to reduce losses through the system operator incentive scheme. We believe it is important for NGET to be incentivised to reduce losses as actions that NGET takes can significantly impact losses. The assessment should compare these options.

Impact on the distribution of costs

This section highlights the redistribution of costs between generators and suppliers but omits the impact of this redistribution on the competitive GB wholesale and retail electricity markets. Under the theoretical model used by OXERA zonal losses will not impact the wholesale price for electricity since marginal plant in the south with more expensive fuel costs will replace marginal plant in the north with cheaper fuel costs with no significant impact on the marginal price setting the wholesale price. Thus generators in the north will be required to absorb the increased costs of losses for all of their plant, not just their marginal plant, thus reducing their profitability. Conversely generators in the south will benefit from reduced losses costs and thus increase their profitability. This allocation of a marginal signal to all output including base-load distorts competition in the GB electricity wholesale market.

Zonal losses do not have a similar distortive effect on the electricity retail market since all suppliers competing to serve a customer will be allocated losses based on the location of the customer and thus will face the same costs which can be reflected in the price quoted to the customer.

The extent of the windfall gains and losses for generators, quoted at £90m for P198 and £80m for P203, highlights the distortive effects of charging or crediting generators with a marginal losses signal on all of their output. This means that power generated in Scotland for use by Scottish industrial, commercial and domestic customers located close to the generation source has losses allocated to the generator on the same basis as power being generated in Scotland and supplied to customers in the south of England. These windfall gains and losses are not dependent on the accuracy of the OXERA modelling and the extent of re-despatch that occurs.

This section fails to highlight the benefits of P200 which applies the same marginal signal as P198 and P203 to changes in generation from the base level only. This results in significant reductions in the windfall gains and losses and the distortive effect on competition in the GB electricity wholesale market.

Implementation costs

There are no significant differences in the implementation costs for each of the alternatives with the additional costs identified for P200 small when compared to the level of costs being allocated under zonal losses.

Impact of mitigation techniques

This section does not set out the impacts of P200, allocation of zonal losses with a mandatory hedging scheme for generators. There is no recognition that the marginal signal strength under P200 is the same as under P198 and P203 nor of the differential impact of P200 on the windfall gains and losses of generators. We do not consider that this section has sufficiently considered the direct impacts of P200 for it to be compared with the other proposals.

Question 2: Do respondents consider there are additional direct impacts that have not been fully addressed?

As set out above we do not consider that the direct impacts of P200 have been sufficiently addressed for it to be compared with the other proposals.

The direct impacts quoted have been limited to a single scenario which appears to result in a significant degree of re-despatch between coal generation in the north and gas generation in the south. The proposals should be assessed against other scenarios.

The modelling used does not reflect the current GB trading arrangements and structure of the wholesale electricity market. It assumes that all plant is centrally despatched and does not recognise the role of the bi-lateral market nor of portfolio generators in despatch decisions. The direct impacts of the proposals should be assessed using a more representative model.

The direct impact of increases in fuel costs has not been included in this chapter. If there is fuel switching as a result of the zonal allocation of losses then this will mean more expensive fuel is being burned. This could and should be modelled.

Question 3: Do respondents wish to present any additional analysis that they consider would be relevant to assessing the proposals?

In our experience as owners and operators of coal generation in Scotland and gas generation in the south of England there have been very few situations when the comparative costs of coal generation and gas generation were sufficiently close such that the methodology for allocation of

transmission losses would have resulted in re-despatch of generation from our coal stations in the north to our gas stations in the south.

Indirect impacts

Question 1: Do respondents consider we have appropriately summarised the indirect impacts of the proposed and alternative modifications?

Accuracy of allocation of losses

The text states that "an estimate of marginal losses derived from an appropriately specified load flow model would appear to represent a more accurate reflection of physical reality than allocating losses without reference to location." The allocation of marginal losses to all generation is not an accurate reflection of physical reality. Applying negative losses to some generators is not an accurate reflection of physical reality. Requiring additional generation of 5.5% from a generator in the South of Scotland zone compared to one in the South Western zone in order to be credited with having sold the same amount of energy, which may be to a local supplier, is not an accurate reflection of physical reality.

The proposals are all options for providing market signals to encourage a particular form of behaviour and should not be misrepresented as reflections of physical reality or an accurate means of allocating transmission losses.

- **Zones versus nodes:** The volume-weighted averaging and time-weighted averaging required to derive zonal marginal TLFs from nodal marginal TLFs could adversely impact some generators with significant variations found within some zones. While a nodal approach is undoubtedly more correct than a zonal approach we can appreciate the need to retain a zonal approach for a scheme including both generation and demand. However it is generators who will be adversely impacted by the scheme rather than suppliers and it may be appropriate to design any scheme round what is least discriminatory for generators.

- **Setting TLFs in advance:** The use to which the TLFs are put is not an accurate reflection of physical reality and thus any additional inaccuracy introduced through setting TLFs in advance should not be significant. It is preferable for generators to have advance notice of how zonal losses are to be allocated rather than ex-post.

- **Setting TLFs once a year:** Annual resetting of TLFs would be appropriate for both annual and seasonal options.

- **Applying a fixed scaling factor of 0.5:** We believe that applying a scaling factor of 0.5 to all generation, aimed at relating the allocation of losses to the marginal impact on the level of losses associated with an increase in power flow from each point on the network, produces too severe a losses signal. It would be more appropriate to allocate such a marginal signal to marginal generation only as done in P200.

- **Applying a variable scaling factor to ensure no energy credits:** We believe it is more appropriate to vary the scaling factor as done in P204 to ensure that no party is allocated a negative volume of losses on a locational basis and that all parties contribute towards variable transmission losses. We believe this is a closer reflection of physical reality than allocating all marginal variable losses to all generation.

- **TLFs fixed over periods of time:** We do not believe it would be appropriate to vary TLFs more frequently than seasonally.

This section again erroneously claims that the full allocation of marginal variable losses on a zonal basis to all generation in that zone is an accurate allocation from the perspective of reflecting physical reality. This implies that allocating a self despatching renewable generator in the South of Scotland zone which has contracted all of its output to a customer located in the same zone 5.5% more losses than an equivalent generator in the South Western zone is an accurate reflection of physical reality.

Competition between generators

This section compares the zonal losses signal to the locational signals from the current transmission network use of system charges and identifies a similar pattern. We consider that these locational transmission charges, which were introduced across GB as part of BETTA in April 2005, are based on significant overestimates of the long term costs of supporting additional generation at locations distant from the GB load centre and thus provide excessive locational signals. The introduction of the zonal losses signal on top of the locational transmission charge signal serves to increase the discriminatory nature of the charges, particularly on existing plant.

OXERA concluded that the introduction of zonal transmission losses would not have a material impact on medium term siting decisions of new plant and that in the longer term it is highly uncertain how much impact zonal loss charging will have. Signals that prospective generators can take into account in deciding where to locate their plant are not as distortive to competition as those imposed on generators who have already decided on their location and as a result are limited in the actions they can take to mitigate the adverse effect of the charges.

P200 will have the same impact on locational decisions as P203. We do not consider that the long term impact of zonal allocation of losses is a significant factor in deciding which if any of the zonal losses options would be most appropriate.

In relation to the impact of each of the proposals on perceptions of risk for generators the impact assessment fails to mention the benefits of P200 in allowing existing generators to hedge their exposure to zonal transmission losses charges for a period of 15 years. Hedging reduces risks and is used extensively by participants in the energy market.

Existing generators are aware of their exposure to changes to trading arrangements and seek to take actions where possible to influence and hedge against any changes in these arrangements. The industry has well developed procedures for assessing and deciding upon prospective changes and the various proposals for changing the arrangements for losses have gone through these procedures with the industry rejecting all of the proposals overwhelmingly. It would significantly increase generators perception of risk for proposals which were so clearly rejected by the industry to be imposed on them by Ofgem.

Transmission costs

The modelling has concluded that the zonal allocation of losses would not have a significant impact on plant siting decisions, either in the medium or longer term, and thus there is unlikely to be any significant impact on the GB transmission investment required in the future. It is thus incorrect for the impact assessment to state that zonal allocation of losses "might be expected to promote, over time, more efficient levels of transmission investment."

Impact on suppliers and prices to consumers

The geographical differences in the costs incurred by suppliers will not distort competition in the GB electricity retail market since all suppliers competing to serve a customer will be allocated losses based on the location of the customer and thus will face the same costs which can be reflected in the price quoted to the customer.

The impact on suppliers is likely to be minimal in the short, medium and longer term and we do not consider that this should be a significant factor in deciding which if any of the zonal losses options would be most appropriate.

Question 2: Do respondents consider there are any indirect impacts of the proposed and alternative modifications that have not been fully assessed?

As set out above we do not consider that the indirect impacts of P200 have been sufficiently addressed for it to be compared with the other proposals.

The assessment has not considered the adverse effect that the introduction of zonal losses would have on competition in the European electricity market. Retail competition will not be affected since all suppliers competing to serve a GB customer will be allocated losses based on the location of the customer and thus will face the same costs which can be reflected in the price quoted to the customer. Wholesale competition will however be distorted as a move to zonal losses in GB will change the cost base for GB generators when compared to generators in the major neighbouring member states. France, Belgium, Netherlands, Germany and Spain all have losses allocated on an average basis and have no plans to introduce zonal losses. The introduction of zonal losses in GB will thus move the GB electricity market away from its most important neighbours at a time when the European Commission's stated aim is to increase the harmonisation of trading arrangements, particularly on a regional basis, across Europe. Ireland plans to implement zonal losses with the introduction of its single electricity market later this year but this is not a key market for GB generators.

Question 3: Do respondents wish to present any additional analysis that they consider would be relevant to assessing the proposals?

As part of the process in assessing these proposals in June 2006, Teesside Power Ltd sent Elexon a paper by NERA on regulatory risk and option theory (NERA (2006), Regulatory Risk and the Cost of Capital, for Teesside Power Ltd, 28 June 2006) showing how regulatory risk can lead to a rise in the rate of return required by investors, which hedging would mitigate. We refer Ofgem to this report.

Environmental impacts

Question 1: Do respondents consider that we have appropriately outlined the key environmental impacts of the different proposals?

Short-term impacts

The major environmental benefits claimed also arise from changes in generation output pattern as a result of short-term despatch decisions being influenced by the zonal allocation of losses, principally from coal generation in the north to gas generation in the south. In our experience as owners and operators of coal generation in Scotland and gas generation in the south of England there are very few situations when, including the costs of carbon, the comparative costs of coal generation and gas generation are sufficiently close such that the methodology for allocation of

transmission losses would result in re-despatch of generation from coal in the north to gas in the south. The price of carbon is determined by the availability of and demand for carbon allowances across the 10,000 installations in the energy and energy-intensive sectors across Europe covered by the EU Emissions Trading Scheme (EU ETS) and when combined with coal and gas prices, which are determined by world events, the resultant marginal cost of coal generation is very rarely within 2-3% lower than the marginal cost of gas generation which would result in re-despatch when losses were allocated zonally. We therefore do not believe that the claimed short term environmental benefits will materialise.

It is not clear if the OXERA modelling has taken into account the cost of carbon when ranking available generation on the basis of short-run marginal costs and despatching against demand. The EU ETS is the market mechanism for providing the correct carbon signal to be taken into account along with other factors such as fuel cost in deciding which stations to despatch. The introduction of an inappropriate marginal zonal losses signal distorts the environmental despatch decision. A marginal zonal losses signals applied to all generation is inconsistent with the EU ETS which allocates free carbon allowances to base generation. P200 is more consistent with the EU ETS than the other options.

Long-term impacts

The modelling has concluded that the zonal allocation of losses would not have a significant impact on decisions on future location of generation plants and thus there is unlikely to be any significant impact on the environment.

Locational decisions of renewables

Zonal losses on their own are unlikely to have a significant influence on the location of new renewables but when added to the current locational transmission network use of system charges can make some marginal renewables projects in remote locations uneconomic. Renewables developments in remote locations with clear benefits will already be in the pipeline and any new projects will be of a marginal nature. If additional renewables are to be encouraged in remote areas then extreme locational signals through transmission charges and losses require to be removed.

Question 2: Do respondents consider that there are other environmental impacts that should be assessed?

As stated above we do not consider that the effects of zonal losses on carbon emissions has been adequately modelled. A modern gas-fired power station emits 60% less carbon per MWh than a coal station and thus it is more likely that generation will be re-despatched from north to south in order to save carbon emissions than that this will be done because of zonal losses. A model which does not include this effect is unlikely to produce an accurate estimate of re-despatch due to zonal losses.

APPENDIX 1

Responses on behalf of ScottishPower submitted in the assessment procedures for P198, P200, P203, P204 and P198 Alternative and P200 Alternative

P198 FIRST ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Man Kwong Liu
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).* Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributors / other – please state [1])* Supplier / Generator / Trader / Consolidator / Exemptable Generator/Distributor

Q	Question	Response	Rationale
1.	Do you believe that any of the potential options for an Alternative Modification set out in the consultation document (or any other option not considered by the Group) may better facilitate the achievement of the Applicable BSC Objectives when compared with the Proposed Modification? *Please give rationale, stating option(s) and relevant Applicable BSC Objective(s).*	**Yes**	ScottishPower do not believe that a zonal transmission losses scheme as proposed in P198 would better achieve the Applicable BSC Objectives. Compared with the current baseline. Indeed, we believe that certain fundamental aspects of P198 would jeopardise the achievement of these Objectives. However, if such a scheme were to be introduced ScottishPower find that each of the proposed alternative options suggested in this consultation document has its own merit and believe that elements from these options should be an integral part of an Alternative Modification that would best facilitate the

[1] Delete as appropriate – please do not use strikeout, this is to make it easier to analyse the responses

Q	Question	Response	Rationale
			achievement of the Applicable BSC Objectives when compared with the P198 Proposed Modification. ***Option 1. Ex-post*** This option gives the most accurate way of calculating and allocating transmission losses under the P198 principle. We note that this ex post calculation of zonal TLF's, exposes parties to imbalance risks that cannot be hedged and will lead to a risk premium being factored into prices, jeopardising the achievement of Applicable BSC Objective (b). Further, as with P198 and its principles, these imbalance risks and uncertainty will not be the same for all parties, which would jeopardise the achievement of Applicable BSC Objective (c). However, we should also note that currently TLMs used in settlement are ex-post. ***Option 2. A more frequent ex-ante calculation of TLFs.*** ScottishPower believe that an ex-ante TLFs for each calendar month approach would better facilitate the BSC objectives (b) and (c) when compared with P198 Proposed. This would more accurately allocate the relevant TLFs to parties. From previous analysis, TLFs do vary throughout the year. Some parties may only operate at certain time of the year and the demands of some parties are different through out the year. These parties should therefore be allocated a more applicable TLF. The provision of monthly TLFs would therefore be more appropriate. ***Option 3. A different constitution of TLF Zones*** ScottishPower accept previous Mod assertions that zonal groupings should be the same for generation and demand. Given that settlement of the demand side on the basis of GSP Groups is

Q	Question	Response	Rationale
			unavoidable, unless they could be grouped in a smaller number of zones, we are unsure how this could be achieved. If Applicable Objective (d) is not to be jeopardised, the constraints of the SVA process mean that loss factors for demand and, we believe, for generation must be averaged across GSP Groups. The results of the P82 modelling showed clearly that this process leads not only to significant alterations to the loss factors applied to individual BM Units but also to changes in the relative positions of BM Units in the notional loss-adjusted national merit order. While it may be argued that the stepped gradient of loss factors across the network gives a better cost allocation than the current single zone, we believe that such errors will lead to excessive and inefficient reactions by some parties and jeopardise the achievement of applicable objectives (b) and (c). The zonal averaging effect is best reduced if the zones are chosen in order to minimise the intra-zone variation in TLFs (c.f., the selection of generation TNUoS zones on the basis of 'similar' nodal marginal costs derived from ICRP). However, the identification of the optimal zonal definition may not be clear cut due to the sensitivity of nodal results to a variety of factors. We would question whether any transmission cost allocation issues can be sensibly taken forward under the BSC while the SVA process is based on GSP Groups and would therefore suggest that P198 and its principles be rejected. ***Option 4. A phased implementation or 'hedging'*** ScottishPower believe an alternative similar to P109 and phased implementation would better achieve BSC Objective (c) - promoting effective competition and (d) - efficiency, compared to P198 Proposed.

Q	Question	Response	Rationale
			The effect of the initial introduction of a zonal losses scheme would create windfall gains and losses. Such gains and losses are inefficient and hence distort competition. The effect of such a change would be to increase the perceived regulatory risk associated with the electricity supply industry and would increase the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Introduction of such Alternative would retain the alleged benefits of changed incentives under P198 while reducing significantly the windfall gains and losses and providing protection against future changes in TLFs. Furthermore, the presence of the risk of adverse changes in loss factors being imposed on a project increases the uncertainty surrounding the potential return from the investment in the project. The removal or reduction of this risk would be expected to reduce the cost of capital for future projects. ***Option 5. The exclusion of some BMUs*** ScottishPower acknowledge the rationale for this option, but are unsure as to whether this may be too much of 'positive discrimination'. ***Option 6. The exclusion of 132kV transmission losses from the locational TLF calculation.*** ScottishPower believe that due to the inherent structure of the industry under BETTA, parties under 132KV would be discriminated if the losses are locationally charged. We therefore believe that the reallocation of 132KV losses to the fixed element and uniformly allocated would better facilitate the BSC objectives

Q	Question	Response	Rationale
			(c) when compared with P198 Proposed. ***Option 7. A change to the existing 45:55 overall allocation to 100% demand*** ScottishPower believe that a change to 100% demand allocation would better facilitate the BSC objectives (b) and (c) when compared with P198 Proposed. We understand that this is the approach that EU is moving toward and was the basis of allocation under the Pool arrangement. In line with P198 principle, ultimately, it is demand units that 'cause' the losses. Furthermore, ScottishPower also agree with some suggestions that losses should be allocated in totality to NGC. Signal from this scheme has minimal effect on parties operationally. NGC are the only party who are in control in this area and have the incentive to minimise losses. The long term signal for siting of plants is already well established under the NGC's TNUoS framework. **In summary, ScottishPower believe that option 4 integrated with elements from option 2 and 6 as discussed above would best facilitate the applicable BSC Objectives (b), (c) and (d), compared with P198 Proposed. This should be the minimal option, with optional 7 including the NGC allocation as the more radical solution to the perceived P198 defects.**

Q	Question	Response	Rationale
2.	If yes, please indicate how the option(s) would meet the issue or defect identified by the Modification Proposal.	-	P198 identified defects/issues include the following:- • The variable costs of transmission losses to be reflected on parties that cause them. • Current cross subsidies and associated discrimination. • To the extent that the zonal charging of losses influences the use of existing generation, reduce the total amount of electricity transmitted and therefore increase the efficient use of energy. It is ScottishPower's view that the options described in question 1 meet the P198 perceived defects of reflective on parties that cause them, discrimination, and influence in the use of existing generation.
3.	Are there any further comments on P198 that you wish to make?	**Yes**	ScottishPower is concerned that P198 would introduce a locational signal in addition to the signal currently provided by NGC's transmission network use of system charging methodology. ScottishPower is concerned that no convincing arguments have been made by Ofgem, NGC or anyone else, as to what is the 'correct' degree of locational signal. NGC's TNUoS methodology is subject to governance outside the BSC and we are concerned that strengthening the locational signal through the BSC while unable to weaken the existing signal will lead to punitively high locational costs at the periphery of the system. This would jeopardise the achievement of Applicable BSC Objectives (b) and (c).

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

P198 SECOND ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
4.	Do you believe that Proposed Modification P198 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	No	ScottishPower do not believe that a zonal transmission losses scheme as proposed in P198 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P198 would jeopardise the achievement of these Objectives. Against applicable BSC objectives: a) The proposed modification discriminates against certain parties while favouring others through the transfer of capital value and windfalls. b) This modification does not generate the sought after long term locational signal. It gives an inconsistent, contradictory and

Q	Question	Response	Rationale
			uncertain short term signal through despatching. The CBA analysis is based on a central despatch model, whereas NETA is based on a self despatch model. Therefore there is a questionable reduction in losses, and a potential loss of efficiency. c) This modification will create a windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which is a barrier for new entrants, and an increased implementation cost for existing parties – both bad for competition. This is detrimental to promoting effective competition. d) This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency.
5.	Do you believe that Alternative Modification P198 would better facilitate the achievement of the Applicable BSC Objectives compared with the Proposed Modification? Please give rationale and state objective(s)	Yes	ScottishPower believe that an ex-ante TLFs for each BSC Season approach would better facilitate the BSC objectives (b) and (c) when compared with P198 Proposed. This would more accurately allocate the relevant TLFs to parties. From previous analysis, TLFs do vary throughout the year. Some parties may only operate at certain time of the year and the demands of certain parties differ throughout the year. These parties should therefore be allocated a more applicable TLF. The provision of Seasonal TLFs would therefore be more appropriate. ScottishPower also believes a phased implementation would better achieve BSC Objective (c) - promoting effective competition and (d) - efficiency, compared to P198 Proposed. The effect of the initial introduction of a zonal losses scheme would create windfall gains and losses. Such gains and losses are inefficient

Q	Question	Response	Rationale
			and hence distort competition. The effect of such a change would be to increase the perceived regulatory risk associated with the electricity supply industry and would increase the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Introduction of such Alternative would retain the alleged benefits of changed incentives under P198 while reducing significantly the windfall gains and losses and providing protection against future changes in TLFs. Furthermore, the presence of the risk of adverse changes in loss factors being imposed on a project increases the uncertainty surrounding the potential return from the investment in the project. The removal or reduction of this risk would be expected to reduce the cost of capital for future projects.
6.	Do you believe that Alternative Modification P198 would better facilitate the achievement of the Applicable BSC Objectives when compared to the current Code baseline? Please give rationale and state objective(s)	No	ScottishPower do not believe that a zonal transmission losses scheme as proposed in Alternative Modification P198 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P198 would jeopardise the achievement of these Objectives. This alternative still creates windfall gains and losses (although to a lesser extent that P198 Proposed) for Parties. It is discriminatory against certain parties and increases the overall investment risk
7.	Do you believe that P198 would have a disproportionate impact on any class or classes of Parties?	Yes	Implementation of P198 would lead to increased costs for several classes of

Q	Question	Response	Rationale
	Please give rationale		Parties. Parties who have plant with environmental constraints, such as Windfarms, Nuclear stations, all types of Renewables or fossil (coal) plants who are unable to change their operational regime readily, and are located historically in the North of the country
8.	Do you believe that P198 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes	ScottishPower believe that there would be an impact. The effect of implementing P198 would be to increase the perceived regulatory risk associated with the electricity supply industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Any form of regulatory risk would effect future investment decisions.
9.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
10.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	During the extensive modification procedure, we believe all viable alternatives have been explored
11.	Does P198 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	There are environmental issues which should be identified and progressed, as well as the potential impact on consumers. Parties receiving windfall gains are unlikely to pass any savings onto customers. Parties who are

Q	Question	Response	Rationale
			windfall losers will have to pass price increases onto customers to cover costs. A risk would be that any future shortfall in Southern generation could lead to an increase in bid price as Northern generation recoup costs.
12.	Are there any further comments on P198 that you wish to make?	No	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **Thursday 13 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P198 Second Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

Any queries on the content of the consultation pro-forma should be addressed to Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P198 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
13.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P198 **should not** be made? Please give rationale.	Yes	ScottishPower do not believe that a zonal transmission losses scheme as proposed in P198 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P198 would jeopardise the achievement of these Objectives. **Objective (a)** The proposed modification discriminates against certain parties while favouring others through the transfer of capital value and windfalls. **Objective (b)** This modification does not generate the sought after long term locational signal. It gives an inconsistent, contradictory and uncertain short term signal through

Q	Question	Response	Rationale
			despatching. The CBA analysis is based on a central despatch model, whereas NETA is based on a self despatch model. Therefore there is a questionable reduction in losses, and a potential loss of efficiency. **Objective (c)** This modification will create a windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which is a barrier for new entrants, and an increased implementation cost for existing parties – both bad for competition. This is detrimental to promoting effective competition. **Objective (d)** This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency. For these reasons, we agree with the Panel that P203 should not be made
	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P198 **should not** be made? Please give rationale.	Yes	ScottishPower believe that, although the Proposed Alternative Modification P198 better facilitates BSC objectives (b) and (c) than Proposed Modification P198, it is not better than the current baseline for the same reasons as detailed in our answer to Q1.
	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	

Q	Question	Response	Rationale
	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P198? Please give rationale.	Yes	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
	Are there any further comments on P198 that you wish to make?	Yes	ScottishPower believe that P198 will have a detrimental impact on the applicable BSC Objectives, as detailed in our answer to question 1. It will increase the perceived regulatory risk associated with the electricity supply industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Any form of regulatory risk would effect future investment decisions. There are environmental issues which should be considered, as well as the potential impact on consumers - Parties receiving windfall gains are unlikely to pass any savings onto customers. Parties who are windfall losers will have to pass price increases onto customers to cover costs. A risk would be that any future shortfall in Southern generation could lead to an increase in bid price as Northern generation recoup costs. Implementation of P198 will lead to increased costs for several classes of Parties, who have plant with environmental constraints, such as Windfarms, Nuclear stations, all types of Renewables or fossil (coal) plants who are unable to change their operational regime readily, and are located historically in the North of the country

Q	Question	Response	Rationale

P198, P200 AND P203 COST-BENEFIT ANALYSIS DATA CORRECTION CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views on the matters contained within this document. Parties are requested to supply the rationale for their responses.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale

Q	Question	Response	Rationale
14.	Does the amended data in the OXERA cost-benefit analysis report alter your views regarding P198? If yes, please provide rationale.	Yes / No	ScottishPower do not believe that a zonal transmission losses scheme as proposed in P198 would better facilitate the achievement of the Applicable BSC Objectives, compared with the current baseline. We believe such modification will create a windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which is a barrier for new entrants. The CBA highlighted a transfer of values between north and south giving windfall gains and losses with ambiguous and questionable signals and benefits. The amended data does not change this view or the fundamental issues against this modification. In fact the variance reinforced our concern on the quality and validity of the CBA conclusion and the potential uncertain impact on parties from any change in assumptions and reality. We further note that some statement in the report could be misleading, particularly on the generic statements on impact to parties located in Wales which are opposite for North and South Wales.
15.	Does the amended data in the OXERA cost-benefit analysis report alter your views regarding P200? If yes, please provide rationale.	Yes / No	Given ScottishPower's view on P198 above, the need for a hedging scheme becomes even more important. ScottishPower believe that this would give certainty to the market and the right message to future investment.
16.	Does the amended data in the OXERA cost-benefit analysis report alter your views regarding P203? If yes, please provide rationale.	Yes / No	Same reason as P198 in Question 1 above.

Please send your responses by **5pm on Tuesday 8 August 2006** to modification.consultations@elexon.co.uk and please entitle your email **'Transmission Losses Data Correction Consultation'.** Please note that it may not be possible for the Panel to consider late responses. Any queries on the content of the consultation pro-forma should be addressed to Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P200 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale

Q	Question	Response	Rationale
17.	Do you believe Proposed Modification **P200** better facilitates the achievement of the Applicable BSC Objectives when compared with the current Code baseline? Please give rationale and state objective(s)	**Yes**	The effect of the introduction of a zonal losses scheme as in the case with P198 (and previous P82) creates windfall gains and losses. Such gains and losses create uncertainty and distort competition. The introduction of P200 would retain the marginal incentives of P198, while reducing significantly the windfall gains and losses and providing protection against future changes in TLFs. This gives certainty of investment signal and reduced risk for investment giving rise to increased investment which would better facilitate competition. ScottishPower therefore believe P200 would better facilitate the achievement of BSC Objective (c) (promoting effective competition) and (b) (efficient network operation), through more stable long term investment signals. While the introduction of P200, as is the case with P198, would detriment BSC objective (d) (efficiency), due to the increased cost of implementation and administration. We believe that the introduction of P200 should reduce the number of future modifications on transmission losses issues and thus the implementation costs of P200 would be well spent and the effect on Objective (d) could be neutral.
18.	Do you believe Alternative Modification **P200** better facilitates the achievement of the Applicable BSC Objectives when compared with the Proposed Modification? Please give rationale and state objective(s)	**Yes**	ScottishPower believe that an ex-ante TLFs for each BSC Season approach would better facilitate the BSC objectives (b) and (c) when compared with P198 Proposed. This would more accurately allocate the relevant TLFs to parties. From previous analysis, TLFs do vary throughout the year. Some parties may only operate at certain times of the year and the demands of certain parties differ throughout the year. These parties should therefore be allocated a more applicable TLF. The provision of Seasonal TLFs would therefore be more appropriate.

Q	Question	Response	Rationale
19.	Do you believe Alternative Modification **P200** better facilitates the achievement of the Applicable BSC Objectives when compared with the current Code baseline? Please give rationale and state objective(s)	**Yes**	For the same reason as Question 1 above.
20.	Do you support the implementation approach described in the consultation document/the implementation option preferred by the Modification Group? Please give rationale	**Yes**	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales required to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning.
21.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	**No**	During the extensive modification procedure, we believe all viable alternatives have been explored.
22.	Do you agree with the 15 years duration for applicability of F-factors? If not please propose any other value with justification. Please give rationale	**Yes**	ScottishPower accept that 15 years duration is applicable as this is typically the timescale used by banks in modelling on investment decisions.
23.	Which option do you support for the definition of the Baseline Period for calculation of F-factor values, either a) 1 April 2005 – 31 March 2006; or b) 1 April 2002 – 31 March 2006 (48 months). Data for England and Wales is available centrally for all of this period. c) Other period. Please give rationale	**(a)**	(a) - ScottishPower believe this option is the simplest and certain, avoiding argument and any complications with data provision, particularly for Scottish generators.

Q	Question	Response	Rationale
24.	For option (b) data for BM Units in Scotland for the period 1 April 2002 - 31 March 2005 would have to be sourced directly from the registered Parties (as this was pre BETTA) with supporting confirmation? Please provide a view on the practicality of this requirement	View	ScottishPower believe this could be time consuming, potentially costly, potentially erroneous and open to auditability/verification complications.
25.	Do you believe the cost of capital is affected by zonal TLMs with and without the addition of a hedging scheme? Please give rationale	**Yes**	ScottishPower believe that the cost of capital is affected by zonal TLMs (without a hedging scheme), as it increases the perceived regulatory risk associated with the electricity supply industry. Any form of regulatory risk would affect future investment decisions and increase the cost of risk management.
26.	Does P200 raise any issues that you believe have not been identified so far and that should be progressed as pare of the Assessment Procedure? Please give rationale	**No**	Applicable issues have already been discussed during the modification procedure.
27.	Are there any further comments on P200 that you wish to make?	**No**	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon on Friday 14 July 2006** to modification.consultations@elexon.co.uk and please entitle your email 'P200 **Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

Any queries on the content of the consultation pro-forma should be addressed to Justin Andrews on 020 7380 4030, email address justin.andrews@elexon.co.uk.

P200 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale

Q	Question	Response	Rationale
28.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P200 **should not** be made? Please give rationale.	**Yes**	While ScottishPower believe the introduction of P200 would retain the marginal incentives of P198 but giving certainty of investment signal and reduced risk for investment, we accept the Panel's recommendation and agree that the effect of introducing a zonal losses scheme creates windfall gains and losses, which discriminates against certain parties and benefits others; generates no long term locational signal and gives an inconsistent, contradictory and uncertain signal which would give rise to uncertainty and distort competition. The unanimous/overwhelming rejection of P198 and related transmission losses mods by the Panel has reduced the above said uncertainty with the current baseline. Therefore on balance, we accept that it would not better facilitate the achievement of the applicable BSC objectives when compared with the current Baseline.
29.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Alternative Modification P200 **should not** be made? Please give rationale.	**Yes**	See comments to Question 1 above.
30.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	**Yes**	The legal texts appear appropriate.
31.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P200? Please give rationale.	**Yes**	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning

Q	Question	Response	Rationale
32.	Are there any further comments on P200 that you wish to make?	**No**	

Please send your responses by **12 noon** on **Friday 1 September 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P200 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Justin Andrews on 020 7380 4364, email address justin.andrews@elexon.co.uk.

P203 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
33.	Do you believe that Proposed Modification P203 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and state objective(s)	No	ScottishPower do not believe that a seasonal zonal transmission losses scheme as proposed in P203 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P203 would jeopardise the achievement of these Objectives. Against applicable BSC objectives: e) The proposed modification discriminates against certain parties while favouring others through the transfer of capital value and windfalls. f) This modification does not generate the sought after long term

Q	Question	Response	Rationale
			locational signal. It gives an inconsistent, contradictory and uncertain short term signal through despatching. The CBA analysis for P198 is based on a central despatch model, whereas NETA is based on a self despatch model. Therefore there is a questionable reduction in losses, and a potential loss of efficiency. g) This modification will create a windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which is a barrier for new entrants, and an increased implementation cost for existing parties – both bad for competition. This is detrimental to promoting effective competition. h) This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency.
34.	Do you believe that Proposed Modification P203 would have a disproportionate impact on any class or classes of Parties? Please give rationale	Yes	Implementation of P203 would lead to increased costs for several classes of Parties. Parties who have plant with environmental constraints, such as Windfarms, Nuclear stations, all types of Renewables or fossil (coal) plants who are unable to change their operational regime readily, and are located historically in the North of the country
35.	Do you believe that Proposed Modification P203 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	Yes	ScottishPower believe that there would be an impact. The effect of implementing P203 would be to increase the perceived regulatory risk associated with the electricity supply industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Any form of regulatory risk would effect future investment decisions.

Q	Question	Response	Rationale
36.	Do you support the implementation approach described in the consultation document? Please give rationale	Yes	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
37.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	During the extensive modification procedure, we believe all viable alternatives have been explored
38.	Does P203 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	There are environmental issues which should be identified and progressed, as well as the potential impact on consumers. Parties receiving windfall gains are unlikely to pass any savings onto customers. Parties who are windfall losers will have to pass price increases onto customers to cover costs. A risk would be that any future shortfall in Southern generation could lead to an increase in bid price as Northern generation recoup costs.
39.	Are there any further comments on P203 that you wish to make?	No	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **Friday 28 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

Any queries on the content of the consultation pro-forma should be addressed to Kathryn Coffin on 020 7380 4030, email address kathryn.coffin@elexon.co.uk.

P203 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
40.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P203 **should not** be made? Please give rationale.	Yes	ScottishPower do not believe that a seasonal zonal transmission losses scheme as proposed in P203 would better achieve the Applicable BSC Objectives, compared with the current baseline. Indeed, we believe that certain fundamental aspects of P203 would jeopardise the achievement of these Objectives. **Objective (a)** The proposed modification discriminates against certain parties while favouring others through the transfer of capital value and windfalls.

Q	Question	Response	Rationale
			Objective (b) This modification does not generate the sought after long term locational signal. It gives an inconsistent, contradictory and uncertain short term signal through despatching. The CBA analysis for P198 is based on a central despatch model, whereas NETA is based on a self despatch model. Therefore there is a questionable reduction in losses, and a potential loss of efficiency. **Objective (c)** This modification will create a windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which is a barrier for new entrants, and an increased implementation cost for existing parties – both bad for competition. This is detrimental to promoting effective competition. **Objective (d)** This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency. For these reasons, we agree with the Panel that P203 should not be made
41.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
42.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P203? Please give rationale.	Yes	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible.

Q	Question	Response	Rationale
			Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
43.	Are there any further comments on P203 that you wish to make?	Yes	ScottishPower believe that P203 will have a detrimental impact on the applicable BSC Objectives, as detailed in our answer to question 1. It will increase the perceived regulatory risk associated with the electricity supply industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency. Risks remain for both existing players and new entrants of future changes in TLFs. Any form of regulatory risk would effect future investment decisions. There are environmental issues which should be considered, as well as the potential impact on consumers - Parties receiving windfall gains are unlikely to pass any savings onto customers. Parties who are windfall losers will have to pass price increases onto customers to cover costs. A risk would be that any future shortfall in Southern generation could lead to an increase in bid price as Northern generation recoup costs. Implementation of P203 will lead to increased costs for several classes of Parties, who have plant with environmental constraints, such as Windfarms, Nuclear stations, all types of Renewables or fossil (coal) plants who are unable to change their operational regime readily, and are located historically in the North of the country

Please send your responses by **12 noon** on **Friday 1 September 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P203 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

P204 ASSESSMENT PROCEDURE CONSULTATION: ADDENDUM ISSUED 12 SEPTEMBER 2006

UPDATED QUESTIONS: RESPONSES DUE BY 12 NOON ON 18 SEPTEMBER 2006

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Man Kwong Liu
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	6
Parties Represented	ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	

Q	Question	Response	Rationale

Q	Question	Response	Rationale
44.	Do you believe that Proposed Modification P204 would better facilitate the achievement of the Applicable BSC Objectives compared with the current Code baseline? Please give rationale and link this to specific BSC Objective(s)	**No**	ScottishPower do not believe that a seasonal zonal transmission losses scheme as proposed in P204 would better achieve the Applicable BSC Objectives, when compared with the current baseline. We believe that certain fundamental aspects of P204 would jeopardise the achievement of the following applicable BSC objectives: i) Though significantly reduced, the proposed modification still discriminates against certain parties while favouring others through the transfer of values and windfalls. j) As with other zonal transmission losses modification proposals, this modification does not generate the sought after long term locational signal. And gives an inconsistent, contradictory and uncertain short term signal. The CBA analysis, as was for P198, highlighted a transfer of values between north and south giving windfall gains and losses with ambiguous and questionable signals and benefits due to it being based on a central despatch economical model, whereas the current BETTA market is based on a self despatch model. k) Though significantly reduced, this modification will still create windfall of gains and losses, which discriminates against certain parties and benefits others. This in turn creates an investment risk which could be a barrier for new entrants, and an increased implementation cost for existing parties – both detrimental to promoting effective competition. l) This modification will have a higher cost of implementation and admin compared to the baseline, detrimental to efficiency. However, in comparing with other related zonal transmission losses proposals, ScottishPower believe that if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.

Q	Question	Response	Rationale
45.	Do you believe that P204 would have a disproportionate impact on any class or classes of Parties? Please give rationale	**Yes**	Whilst reduced when compared with other related zonal transmission losses proposals, implementation of P204 would still lead to increased costs for several classes of Parties, particularly for parties who have plant with environmental constraints, such as Windfarms; Nuclear stations; all types of Renewables or fossil (coal) plants, who are unable to change their operational regime readily, and are located historically in the North of the country.
46.	Do you believe that P204 would have an impact on perceptions of regulatory risk and/or the cost of capital? Please give rationale	**Yes**	ScottishPower believe that there would be an impact. The effect of implementing P204, as with other related zonal transmission losses proposals, would be to increase the perceived regulatory risk associated with the electricity industry, increasing the costs of both its players and its customers to the overall detriment of economic efficiency and competition. Risks remain for both existing players and new entrants of future changes in TLFs. We believed that any form of regulatory risk would effect future investment decisions.
47.	Do you support the implementation approach described in the consultation document? Please give rationale	**Yes**	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
48.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	**No**	During the extensive modification procedure on the related transmission losses proposals, we believe all viable alternatives have been explored

Q	Question	Response	Rationale
49.	Does P204 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	**No**	
50.	Are there any further comments on P204 that you wish to make?	**Yes**	In comparing with other related zonal transmission losses proposals, ScottishPower believe that if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12 noon** on **18 September 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P204 Assessment Procedure Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

Any queries on the content of the consultation pro-forma should be addressed to Justin Andrews on 020 7380 4364, email address justin.andrews@elexon.co.uk.

P204 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Man Kwong Liu
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	6
Parties Represented	ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	

Q	Question	Response	Rationale

Q	Question	Response	Rationale
51.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P204 **should not** be made? Please give rationale.	**Yes**	While ScottishPower accept P204 significantly reduced the impacts on parties (when compared with other zonal losses proposals), we agree with the Panel's recommendation and the view that the effect of introducing a zonal losses scheme creates windfall gains and losses, which discriminates against certain parties and benefits others; generate no long term locational signal and gives an inconsistent, contradictory and uncertain signal which would give rise to uncertainty and distort competition, and therefore would not better facilitate the achievement of the applicable BSC objectives when compared with the current Baseline. However, ScottishPower would reiterate that, in comparing with other related zonal transmission losses proposals and if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.
52.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P204? Please give rationale.	**Yes**	Implementation must be planned to take account of all required system and process changes. These are the minimum timescales require to ensure as risk free an implementation as possible. Implementation in April 2008 is the earliest date possible, and in line with contract rounds and Party business planning
53.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	**Yes**	The legal texts appear appropriate.
54.	Are there any further comments on P204 that you wish to make?	**Yes**	ScottishPower would reiterate that, in comparing with other related zonal transmission losses proposals, and if a zonal scheme were to be imposed, P204 would be the most 'reasonable' option.