Responses from P194 Assessment Consultation

Consultation Issued 10 October 2005

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Electricity 4 Business Limited	P194_AR_001	2	0
2.	Airtricity	P194_AR_002	1	0
3.	RWE Trading	P194_AR_003	10	0
4.	Chemical Industries Association	P194_AR_004	0	1
5.	Utilita Electricity Limited	P194_AR_005	1	0
6.	BizzEnergy Limited	P194_AR_006	1	0
7.	E.ON. UK	P194_AR_007	15	0
8.	Immingham CHP	P194_AR_008	1	0
9.	EDF Energy	P194_AR_009	9	0
10.	AES Indian Queens Power Ltd	P194_AR_010	1	0
11.	Barclays Bank plc	P194_AR_011	1	0
12.	The Renewable Energy Co Ltd	P194_AR_012	1	0
13.	Slough Heat and Power	P194_AR_013	1	0
14.	Scottish Power	P194_AR_014	6	0
15.	Gaz de France ESS	P194_AR_015	1	0
16.	Scottish and Southern	P194_AR_016	5	0
17.	National Grid	P194_AR_017	1	0
18.	International Power (IPR)	P194_AR_018	4	0
19.	British Energy	P194_AR_019	5	0
20.	Total Gas & Power Limited	P194_AR_020	1	0
21.	British Gas Trading	P194_AR_021	1	0
22.	Uskmouth Power Limited	P194_AR_022	1	0
23.	BP Gas Marketing Ltd	P194_AR_023	1	0
24.	InterGen UK Ltd	P194_AR_024	4	4

P194 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:	*Dr Simon Miles*
Company Name:	*Electricity 4 Business Limited*
No. of BSC Parties Represented	*2*
Parties Represented	*Electricity 4 Business Limited* *EnergyCo2 Limited*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*Supplier*

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	Objective c) competition: increases costs to smaller suppliers, who have no ability to mitigate the affect, with no justification Objective b) balancing cost: by causing suppliers to go longer it increases the total balancing cost
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	Suppliers already contract to more than their average demand expectation.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	Suppliers would go even longer during higher demand periods. However they would have an incentive to under contract if there was a potential for negative prices

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Q	Question	Response Error! Bookmark not defined.	Rationale
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	Suppliers in total will be incentivised to go longer.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	To the extent manipulation is possible this will exacerbate it
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	Full reporting required from the start
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	No rational justification for any value
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	It increases the probability of system actions contaminating the imbalance prices. The potential has already been increased by the move to BETTA.
10.	Are there any further comments on P194 that you wish to make?	No	

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Please send your responses by **17:00 on Monday 24 October 2005** to modification.consultations@elexon.co.uk and please entitle your email '**P194 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Robert Longden*
Company Name:	*Airtricity*
No. of BSC Parties Represented	*1*
Parties Represented	*Airtricity*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*Trading Party Interconnector User*

Q	Question	Response	Rationale

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	It acts against objective c), promoting competition. It will increase the spread in imbalance charges without any cost justification as payments to generators will remain pay-as-bid. This will: • inappropriately increase costs to smaller suppliers vis-à-vis larger suppliers given the relative predictabilities of demand in their portfolios and the differential abilities to trade to a balance at equivalent cost. • inappropriately increase risk to single site participants when their export/offtake changes, as there would be no portfolio mitigation. • inappropriately increase imbalance charges to variable output generation, such as wind. Act against objective b), efficient operation. It will cause suppliers to go excessively long hence they will be purchasing excess output from generators that NGT then has to sell down (generally at a significantly lower price).
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	Suppliers already contract for more than their expected demand (although to a lesser extent than before P78 i.e. they are more balanced than they were). This modification would increase the incentive to “over” contract. Generators are not permitted under the Grid Code to carry reserve for themselves, hence can only contract at expected output level and pay imbalance when they trip.

Q	Question	Response	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	At peak periods with higher probability of the system as a whole going short the potential for significantly higher SBP would act as an incentive for suppliers to over contract to a greater extent than they do now. During trough periods with potential negative prices the incentive will be to under contract. Both of these effects are likely to result in the system being LESS balanced.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	This will incentive excessive length during non trough periods.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	We do not believe that pure energy prices can be manipulated with the current British electricity market generation competition levels. However given the increased stress on the transmission system post BETTA there is a potential for bid manipulation by northern generators and likewise for offer manipulation by southern generators. This mod would increase the possibility of this feeding through into imbalance prices. Independent of any manipulation the mod will increase the likelihood of system actions significantly affecting the imbalance prices and thus increasing the level of unpredictability and risk .
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	Full reporting is a necessity from the start.

Q	Question	Response	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	The % approach makes even less sense and there can be no objective valuation of PAR.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	There can be no objective valuation of PAR
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	
10.	Are there any further comments on P194 that you wish to make?	No	

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Name: Bill Reed*
Company Name:	*RWE Trading*
No. of BSC Parties Represented	*10*
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).* RWE Trading GmbH, RWEnpower, Npower Cogen Trading Ltd; Ltd, Npower Commercial Gas Ltd, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd
No. of Non BSC Parties Represented (e.g. Agents)	
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 / BSC Agent / Party Agent*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	While we support the introduction of marginal *energy* pricing in principle, we are concerned that the methodology in P194 is based on an arbitrary definition of a volume designed to reflect "more" marginal actions.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	Yes	Evidence presented during discussions on P194 indicate that there are occasions where the volume weighted methodology reduces "energy" balancing prices in certain settlement periods when compared with more marginal prices. However we believe that the treatment of standing reserve options fees, constraints and NGET forward trading have a stronger influence on cash out prices and may have a more significant impact on the incentive to contract.

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

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Q	Question	Response	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	P194 may provide additional encouragement for parties to contract for certain settlement periods. In general, however, the current volume weighted average approach provides sufficient incentives on parties to contract.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	No	We are not convinced that P194 would result in "excessive" length on the system. It should be noted that the "more" marginal pricing would impact on SSP as well as SBP.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	*Please provide rationale and outline specifics of how you believe potential manipulation could be achieved:*
6.	Do you prefer any of the implementation approaches described in the consultation document?	C	We support approach C – appropriate reporting should be provided to the market.
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	*Please give rationale and state objective(s):*
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	100MWh	The modification proposal suggests 100MWh. This should be used for the purpose of assessment.
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	*Please give rationale:*
10.	Are there any further comments on P194 that you wish to make?	No	

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Helen Bray*
Company Name:	*Chemical Industries Association (CIA)*
No. of BSC Parties Represented	
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	*150 chemical companies*
Non Parties represented	*http://www.cia.org.uk/newsite/membership/full_list.htm*
Role of Respondent	*Trade Association*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	The Proposed Modification does not better facilitate the Applicable BSC Objectives, as the CIA believes that a more marginal cash-out price could encourage parties to go long and result in a less balanced market. Furthermore, a more marginal cash-out price will inevitably mean increased risk premiums for consumers.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	We believe that the market is sufficiently balanced under the current regime and the dual cash-out price provides an incentive to balance should the relevant market participant choose to do so. The evidence from a more extreme cash-out (pre-P78) is that the market was less balanced.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	CIA believes that there are appropriate incentives on all parties under the status quo. A more marginal cash-out price will just change the position parties contract to ahead of real time and create artificial and costly penalties. Please see our answer to Q2.

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Q	Question	Response	Rationale
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Potentially	Some Parties may choose to "go long" to avoid a potentially extreme System Buy Price.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Don't know	There is no evidence to suggest that Parties are able to manipulate Energy Imbalance Prices, however, it must be more possible to manipulate a system where a small number of actions set the price.
6.	Do you prefer any of the implementation approaches described in the consultation document?	A/B/C	Difficult to comment as not all the ELEXON man days have been stated under Option C.
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	A fixed percentage volume alternative would require an arbitrary fixed percentage to be defined and the CIA believes that our comments under Q1 can be applied to the alternative.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?		Any value suggested would be arbitrary.
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	The consultation document does not discuss how imbalance costs might be passed through from Suppliers to consumers. This could be considered ultra vires, but should be noted that any proposal to amend the energy imbalance prices may not have a large impact on incentives to balance if the majority of imbalance costs are passed through to the end user.
10.	Are there any further comments on P194 that you wish to make?	No	

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Respondent:	*Bill Bullen*
Company Name:	*Utilita Electricity Limited*
No. of BSC Parties Represented	*1*
Parties Represented	*n/a*
No. of Non BSC Parties Represented (e.g. Agents)	*n/a*
Non Parties represented	*n/a*
Role of Respondent	*Supplier*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	*It doesn't provide any additional incentive (that is realisable by small participants) to trade ahead of gate closure and penalises smaller market participants thereby preventing competition (objective c)*
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	*We would already trade 100% of our estimated demand if we could*
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	*We would already trade 100% of our estimated demand if we could*
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	*The main impact is that it is likely to widen buy/sell spreads and increase RCRC and therefore further favour bigger players.* *To the extent that suppliers are able to trade to an exact balance (i.e. they are larger) this will give them an incentive to go longer, so it will encourage excessive length in the market this will increase the total cost of balancing hence counter to objective b.*

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Q	Question	Response	Rationale
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	*If prices are set from a single marginal generator there is obviously more potential for a generator to manipulate that price. There is also an increased likelihood of system actions polluting the imbalance prices.*
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	*P194 should not be implemented. But if it is full reporting is necessary from the start.*
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	*None overcome the objections outlined above*
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?		*P194 should not be implemented. There is no justification for a specific PAR level – it appears a purely arbitrary choice.*
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	*Credit cover requirements are likely to be higher because trading positions will be less "stable", i.e. in order to prevent default a higher credit balance will have to be maintained. This is also a restriction on competition because it will impact disproportionately on smaller suppliers.*
10.	Are there any further comments on P194 that you wish to make?	Yes	*We are concerned about the reliance of the assessment group on NGC support and analysis, given they are the proposer.*

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.

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Respondent:	*Keith Munday*
Company Name:	*BizzEnergy Limited*
No. of BSC Parties Represented	*1*
Parties Represented	*As above*
No. of Non BSC Parties Represented (e.g. Agents)	*n/a*
Non Parties represented	*n/a*
Role of Respondent	*Supplier*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	*It doesn't provide any additional incentive to trade ahead of gate closure and penalises smaller market participants thereby preventing competition*
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	*We would already trade 100% of our estimated demand if we could*
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	*We would already trade have to go long to avoid asymmetry of imbalance prices, this would force us to go further out of balance.*
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	?	*The main impact is that it is likely to increase RCRC and therefore favour bigger players who receive recycling on generation and supply and is therefore a cross subsidy from small independent players to larger VI players. They clearly need all the financial support they can get.*

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Q	Question	Response	Rationale
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	*If prices are set from a single marginal generator there is obviously more potential for a generator to manipulate that price*
6.	Do you prefer any of the implementation approaches described in the consultation document?	A/B/C	*No*
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	*None overcome the objections outlined above*
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?		*P194 should not be implemented*
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	*Credit cover requirements are likely to be higher because trading positions will be less "stable", i.e. in order to prevent default a higher credit balance will have to be maintained. This is also a restriction on competition.*
10.	Are there any further comments on P194 that you wish to make?	Yes	There is a point at which increasing price will no result in any change in behaviour. It merely penalises those who cannot avoid the price despite doing everything in their powers to mitigate against the effect. Excessive prices are therefore anti-competitive aginst small players who have less diversity in their portfolios and less tools to be able to manage the risk.

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Respondent:	E.ON UK
Company Name:	
No. of BSC Parties Represented	15
Parties Represented	E.ON UK plc, Powergen Retail Limited, Cottam Development Centre Limited, Enizade Ltd, E.ON UK Drakelow Limited, E.ON UK Ironbridge Limited, E.ON UK High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy.
No. of Non BSC Parties Represented (e.g. Agents)	N/A
Non Parties represented	N/A
Role of Respondent	Supplier, Generator, Trader, Consolidator & Exemptable Generator

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	Objective c) (Competition) This has the ability to introduce unnecessary risk for participants due to greater volatility in imbalance prices. This is not conducive to effective competition.

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Q	Question	Response	Rationale
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	There is no evidence that the system failed to balance during the cold snap in February/March 2005. From our perspective there was effective arbitrage between fuels at this time and both markets balanced. Therefore, we believe that the existence of a defect has not been proven. In terms of how Offer prices appear not to react to market conditions we believe that this is for a number of reasons. For example, in an operational context NGC wants participants within day to keep their prices stable to assist their decision making. Additionally, reserve plant by definition keeps its prices stable, but also limits the extent to which other generators can put up their prices to react to market conditions if they wish to be able to compete. To blame the phenomenon purely on cash-out prices is unrealistic.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	It would probably provide an incentive to go longer. It was identified in the assessment of P74 and P78 that the bid and offer stacks were not symmetric in nature and that the risk associated with going long was in a dual cash-out regime generally lower than being short. Therefore, it is likely that participants will tend towards being long rather than risk a more extreme SBP. This is not the same as being more in balance and results in participants carrying more of their own reserve. This is likely to be inefficient compared with procurement by NGC and would serve no purpose other than reducing the balancing costs that NGC sees directly.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	We believe that it would encourage greater length as described above. To the extent that this length is inefficient, it could be described as excessive.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	Including reporting straight away appears to be marginally more expensive than not having reporting and less expensive than delaying the implementation of the reporting element.

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Q	Question	Response	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	None of the options would better meet the applicable objectives for the reasons given in respect of the original.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Cannot say	This is one of the problems with the proposal. It is not possible to come up with an objective method for determining the size of the PAR volume. It is based purely on a subjective assessment of whether prices are high enough in different circumstances. The mechanism should determine the correct level of prices, not for this to be determined up front. One thing we can say is that the level of 100MWh appears too low. Over the last 12 months NGC's final demand forecast has deviated from metered demand on average by 200.49MWh. Therefore, if we are balancing the system to the information provided then this level of deviation is to be expected. It would be unrealistic for individual participant's positions to be more accurate. This would suggest that the PAR should be well above 100MWh.
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	
10.	Are there any further comments on P194 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.

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Please send your responses by **17:00 on Monday 24 October 2005** to modification.consultations@elexon.co.uk and please entitle your email '**P194 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 Tom Bowcutt on 020 7380 4309 , email address thomas.bowcutt@elexon.co.uk.

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P194 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:	*Rekha Patel*
Company Name:	*Immingham CHP*
No. of BSC Parties Represented	
Parties Represented	*n/a*
No. of Non BSC Parties Represented (e.g. Agents)	*n/a*
Non Parties represented	*n/a*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	There are already very strong incentives to be fully contracted, and P194 will not have any impact on the security of the system. At the same time by systematically increasing imbalance risk it will distort competition especially for non portfolio players and functionally unintegrated parties by increasing the risks and costs they face. By increasing balancing risk it could also create barriers to new entry.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	As we have noted, the incentives to contract ahead of gate closure are already very strong. Non portfolio players are also more likely to be subject to forecast error, and therefore may be more prone to imbalance but this of itself does not mean the incentives are not there.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	P194 doesn't provide any additional incentive to trade ahead of gate closure. As we have noted the incentives are already very strong under the current baseline. Indeed, given the increased imbalance risk P194 would create, it may also reduce trading in the short-term forward markets diminishing further the ability of parties to balance.

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4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes, and the impact can be expected to be significant.	The increased imbalance costs under P194 are likely to drive parties longer than at present particularly to avoid penal top-up prices. Many of the beneficial impacts of P78 in terms of reduction of system length would be lost. In turn this effect can, as we alluded to above, be expected to diminish liquidity on the short-term forward markets.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Possibly	If prices are set from a single marginal generator, there is obviously more potential for a generator to manipulate that price, especially were transmission constraints expected to be in play. In this context we would observe the significant increase in constraints dealt with through the BM since Betta go-live. That said, it is difficult to anticipate the pattern of acceptances in any particular half hour and therefore to game the prospects of acceptance. More generally the decentralised bilateral market represented by Neta/Betta was introduced as a direct response to the perceived ability of large players to manipulate marginal price-based trading, with significant detrimental impacts on competition in the market place. The proponent has not demonstrated why it believes those pressures to be no longer absent or how its proposal would address them.
6.	Do you prefer any of the implementation approaches described in the consultation document?	No	We do not support the principle behind P194.
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	We do not support the principle behind P194
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	None	P194 should not be implemented.

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9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	Credit cover requirements are likely to be higher because trading positions will be less “stable” and the total system imbalance is likely to increase, and parties individually as well as collectively will have to maintain higher credit balances. This could be construed as a restriction on competition. See also response to 10 below.

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10.	Are there any further comments on P194 that you wish to make?	Yes	P194 is a hybrid proposal. It is neither true marginal, but fatally changes the concept of average weighted pricing as it has evolved in the light of market experience. It has none of the hypothetical benefits of marginal pricing in a truly competitive market and it eliminates some of the enhancements made to the current pricing mechanism since go-live. The proposer has not adequately addressed many of the defects identified by Ofgem in its decision letter on the full marginal proposals represented by P136/137. These include: ▪ the greater bias towards non-cost-reflective pricing (which is probably aggravated by the tendency of some flexible players and technologies to submit sleeper bids) ▪ increase in costs to, and risks, on market participants, with a disproportionate impact on smaller and non vertically integrated players ▪ impact of conflicting incentives through application of RCRC. We would also note that the observations made about the transparency of NGC's actions in the P136/137 decision letter have yet to be resolved. We also have concern that the proposer has not considered the ability of both sides of the market to respond to the sharpened prices the proposal would create. In this regard creating volatile and peaky prices that may not reflect costs in the hour ahead of delivery in a market that still has real limits on transparency and information could have a very detrimental effect on the demand side which remains largely inflexible. This too can impact disproportionately on generators who are subject to plant failure or intermittency after gate closure.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment

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Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

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P194 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:	Stephen Moore
Company Name:	EDF Energy
No. of BSC Parties Represented	9
Parties Represented	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power) EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; London Energy plc; Seeboard Energy Limited
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier/Generator/Trader

Q	Question	Response	Rationale

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Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	We do not believe that the defect P194 seeks to resolve actually exists (see Q2) so clearly we do not think that P194 offers an improvement on the current baseline. Instead we believe it would actually be detrimental to competition (Objective c) by increasing the possibility of penal imbalance prices which would have a disproportionate effect on smaller suppliers. Even for a large supplier the impact of high imbalance prices can be significant, as the Damhead Creek incident showed, these costs will ultimately be borne by customers. In addition, we are not confident that the tagging rules will always remove System Balancing actions from the imbalance price. P172 may have closed one loophole but Damhead Creek demonstrates the potentially large impact of System Balancing actions on energy imbalance prices. In creating a variable PAR value, P194 creates the potential for inefficient operation of the BSC (Objective d) by providing the opportunity for annual modifications to amend PAR. Such instability and uncertainty would comprise a major disincentive for new entrants and for existing parties to invest in new generation assets.

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Q	Question	Response	Rationale
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	There is no requirement in either the Supply Licence or the BSC for parties to be in balance; rather that they are subject to the relevant cashout price when they are not. Nor have there been any incidents when NG have been unable to balance the system because of parties being out of balance. Whilst more parties doing their own balancing – or more likely going long – may make NG's job easier, that is not evidence of a defect. In addition, where parties were effectively procuring their own reserve (see Question 4) this would be far less efficient than if NG were to do so as NG clearly have a better view of the immediate market conditions and could contract with plant appropriately.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	P194 would further encourage parties to go long for fear of being subject to penal and unpredictable cashout prices, particularly SBP (see Question 4). However, the extent to which parties can contract 100% accurately is debatable. There will always be demand forecast errors and smaller parties have less scope to trade potential imbalances nearer to gate closure, thus we believe P194 would be detrimental to competition.

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Q	Question	Response	Rationale
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	The asymmetry between extremes of SBP and SSP would, as evidenced by the market prior to P78, encourage parties to go long because of the risk of being exposed to very high SBP. However, the asymmetry - the tendency of SBP to go to very high levels at peak demand, based on the offer prices of a very small number of plant controlled by 2 or 3 companies - would be much greater under P194 than it was in the pricing mechanism that prevailed prior to P78. Because SSP does not go low at any time to anything like the extent that SBP can go high, we identify an asymmetry in the resultant risk, causing suppliers in particular to go long. Another consequence of the asymmetric and extreme risk at times of system stress is to cause generators – in contravention of the Grid Code – to hold back some output to self-insure. Specifically, a generating may hold back (i.e. not forward-sell) some output on one flexible unit with a view to some self-insurance - arising from the ability to raise output at short notice - against breakdown on another, at times of system stress. This is of course most undesirable from a security of supply perspective and a most regrettable consequence of implementing P194.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes / No	It is unclear exactly how parties would be able to manipulate imbalance prices, but any move towards more marginal cashout pricing accentuates both the advantages for doing so and the consequences for other parties.
6.	Do you prefer any of the implementation approaches described in the consultation document?	B/C	We do not believe it acceptable to implement this change and not make changes to SAA reporting as this would make the actions of NG even less transparent. Were P194 approved, we would prefer the implementation be timed to coincide with a scheduled release date and thus reduce cost.

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Q	Question	Response	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	Yes	Whilst we do not support this modification, an alternative PAR value of 500MWh would have some merit. See answer to Question 8.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	500MWh	It is impossible to provide a rationale for what is, in effect, an arbitrary number, but if P194 were to be implemented then 500MWh would be more appropriate. This would not generally distort cashout prices significantly but would provide the additional incentives at times of system stress that NG are looking for.
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	P194 would be detrimental to Ofgem's statutory duty to improve the environment by introducing inadvertent discrimination against renewable generators with less predictable output (e.g. windfarms).
10.	Are there any further comments on P194 that you wish to make?	Yes	Whilst the current imbalance pricing rules may not be perfect, there is little definitive evidence that a defect actually exists. Instead P194 would penalise small parties – both generators and suppliers – for imbalances which are difficult to control and could actually encourage generators to hold back their own margin for fear of volatile and unpredictable cashout prices, thus reducing the total amount of reserve available to NG.

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Please send your responses by **17:00 on Monday 24 October 2005** to modification.consultations@elexon.co.uk and please entitle your email '**P194 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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P194 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:	
Company Name:	AES Indian Queens Power Ltd
No. of BSC Parties Represented	*1*
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).*
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	*Generator*

Q	Question	Response Error! Bookmark not defined.	Rationale

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	Against objective c) promoting competition. It will increase the spread in imbalance charges without any cost justification as payments to generators will remain pay-as-bid. This will: • inappropriately increase costs to smaller suppliers vis-à-vis larger suppliers given the relative predictabilities of demand and the ability to trade to a balance at equivalent cost. • inappropriately increase risk to single site participants when their export/offtake changes, as there would be no portfolio mitigation. • inappropriately increase imbalance charges to variable output generation, such as wind. Against objective b) efficient operation. It will cause suppliers to go excessively long at peak (and excessively short overnight) hence they will be purchasing excess output from generators that NGT then has to sell down (generally at a significantly lower price). It will be an inefficient incentive to excessive imbalance – the net spend on BSUoS may reduce but this is not the same as efficient operation, which can only occur if imbalance is minimised.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	Generators are not permitted under the Grid Code to carry reserve for themselves, hence can only contract at expected output level and pay imbalance when they trip. Suppliers already contract for more than their expected demand (although to a lesser extent than before P78 i.e. they are more balanced than they were).

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	At peak periods with higher probability of the system as a whole going short the potential for significantly higher SBP would act as an incentive for suppliers to over contract to a greater extent than they do now. During trough periods with potential negative prices the incentive will be to under contract. It would simply not be efficient for suppliers to contract to cover generator trip risk as well. NGET should be doing this through reserve contracts – there is a serious risk of both double-counting of reserve provision or else of reserve being carried on the wrong machines, reducing net efficiency.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	This will incentive excessive length during non trough periods.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	We do not believe that pure energy prices can be manipulated with the current British electricity market generation competition levels. However given the increased stress on the transmission system post BETTA there is a potential for bid manipulation by northern generators and likewise for offer manipulation by southern generators. Independent of any manipulation the mod will increase the likelihood of system actions significantly polluting energy imbalance prices.

Q	Question	Response Error! Bookmark not defined.	Rationale
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	Full reporting is a necessity from the start.
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	The % approach makes even less sense and there can be no objective valuation of PAR.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	There can be no objective valuation of PAR
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	
10.	Are there any further comments on P194 that you wish to make?	No	

P194 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:	Paul Dawson
Company Name:	Barclays Bank plc
No. of BSC Parties Represented	1
Parties Represented	Barclays Bank plc
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	Please list all non Parties responding on behalf of (including the respondent company if relevant).
Role of Respondent	Trader

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	Yes	The modification will ensure that cash-out prices better reflect the marginal cost associated with balancing the system. Consequently, they will send a more economically efficient signal to market participants about the opportunity cost of imbalances and, hence, provide an appropriate and efficient incentive to balance. This will both promote effective competition in the generation, supply, sale and purchase of electricity (applicable objective, c) and promote the efficient, economic and coordinated operation by the Transmission Company of the Transmission System (applicable objective, b).

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Q	Question	Response	Rationale
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	Yes	The volume weighted average price was intended to provide a good proxy for the marginal cost of balancing energy. However, at times there is a significant divergence between calculated balancing prices and the marginal cost. This is particularly the case at times of energy shortage, where there is a significant divergence between marginal costs incurred in balancing the system and the calculated cash-out prices. At these times, market participants do not face a balancing incentive commensurate with the opportunity cost to the system of procuring balancing energy which reduces their incentive to balance at times of system shortage. In turn this leads to distortions in forward contracting behaviour, ie, market participants do not face sufficient incentive to avoid being short of energy when the system is short of energy.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	In providing a more economic signal of the cost of balancing the system, the proposed modification will ensure that market participants correctly value the likelihood – and associated cost – of being short at times of system shortage. The modification will therefore provide an additional – but economic – incentive to contract ahead of Gate Closure to avoid exposure to imbalance prices. In turn forward market prices will more properly reflect the value of energy at times of relative scarcity.

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Q	Question	Response	Rationale
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	No	In contracting forward, market participants' will compare their estimates of the likelihood of being short and the associated cost in terms of balancing prices against forward power prices. By increasing the likely level of balancing prices at times of serious system shortage, market participants may therefore seek to reduce their potential imbalance exposure by purchasing more, and at higher prices, in the forward market. This may encourage additional length at times of expected system shortage as market participants face an increased incentive not to be short. However, since expected balancing prices will represent the economic cost of balancing the system, any additional length will be economic and rational and cannot be seen as "excessive".
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	The ability to manipulate prices requires both the ability and incentive to influence cash-out prices and the ability to predictably benefit from that influence. Dual-cash out pricing largely obviates the ability to benefit from manipulation since if a participant, for example sought to drive up SBP, they could directly access that price for any residual length they have (for which they would receive SSP). Neither is it clear that any market participant could predictably influence SBP or SSP on a systematic basis nor benefit from doing so (which would require the ability to predict when one would be accepted to take a balancing action, the outcome of the tagging rules, whether the system is long or short, the outcome of the RCRC calculation etc.) We are not aware of any well-articulated method by which this could be achieved.

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Q	Question	Response	Rationale
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	It will be valuable to observe the respective contributions of NIV and PAR tagging to the imbalance price calculation and in the context of the benefits of the proposal, any difference in costs between the implementation approaches is immaterial.
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	No. A marginal approach to the calculation of cash-out prices is the most appropriate even when a small or single action determines the cash-out price. A PAR volume of 100 MWh would move us in the direction of a marginal price while mitigating any residual concerns about anomalous prices associated with single, small volume acceptances.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	100 MWh	
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	The assessment consultation has covered all of the relevant issues.
10.	Are there any further comments on P194 that you wish to make?	No	

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Philip Catherall*
Company Name:	*The Renewable Energy Co Ltd*
No. of BSC Parties Represented	
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	Generator and Supplier

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	The incentives already in the system. If all generation that can come on is incentivised at say £300 per mWh, having a system price of £1,000 will make no difference other than to kill off all non vertically integrated suppliers.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	*As a retail supplier, we will contract where possible, although will market liquidity at such a low level this is causing serious difficulties.*
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	*See above. We already have sufficient incentives. The current market does not allow us to do anything different anyway.*

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Q	Question	Response	Rationale
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	*The market structure as it is at the moment has been responsible for causing the vertical intergeration, as the larger suppliers have looked to internally cover off imbalance. This will just make things much worse for anyone who does not have own generation. Excessive length required a mod (P78) to sort out, which participants agreed to. This will undo P78.*
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	*Prices will be set by the marginal player*
6.	Do you prefer any of the implementation approaches described in the consultation document?	No	*Please provide rationale:*
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	*Please give rationale and state objective(s):*
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Zero	*Please provide rationale:*
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	*Greater instability gives rise to actual and perceived increases in risk. This will be covered off by requiring greater credit cover which will further increase barriers to new entry.*
10.	Are there any further comments on P194 that you wish to make?	Yes	The ground has already been covered by Ofgem in their response to P136/137. There is nothing new here and the proposal should be immediately rejected.

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.

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Wayne Tipping*
Company Name:	*Slough Heat and Power*
No. of BSC Parties Represented	*1*
Parties Represented	*Slough Energy Supplies Limited*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*Supplier*

Q	Question	Response	Rationale

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	Against objective c) promoting competition. It will increase the spread in imbalance charges without any cost justification as payments to generators will remain pay-as-bid. This will: • inappropriately increase costs to smaller suppliers vis-à-vis larger suppliers given the relative predictabilities of demand and the ability to trade to a balance at equivalent cost. • inappropriately increase risk to single site participants when their export/offtake changes, as there would be no portfolio mitigation. • inappropriately increase imbalance charges to variable output generation, such as wind. Against objective b) efficient operation. It will cause suppliers to go excessively long at peak (and excessively short overnight) hence they will be purchasing excess output from generators that NGT then has to sell down (generally at a significantly lower price). It will be an inefficient incentive to excessive imbalance – the net spend on BSUoS may reduce but this is not the same as efficient operation, which can only occur if imbalance is minimised.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	Generators are not permitted under the Grid Code to carry reserve for themselves, hence can only contract at expected output level and pay imbalance when they trip. Suppliers already contract for more than their expected demand (although to a lesser extent than before P78 i.e. they are more balanced than they were).

Q	Question	Response	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	At peak periods with higher probability of the system as a whole going short the potential for significantly higher SBP would act as an incentive for suppliers to over contract to a greater extent than they do now. During trough periods with potential negative prices the incentive will be to under contract. It would simply not be efficient for suppliers to contract to cover generator trip risk as well. NGET should be doing this through reserve contracts – there is a serious risk of both double-counting of reserve provision or else of reserve being carried on the wrong machines, reducing net efficiency.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	This will incentive excessive length during non trough periods.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	We do not believe that pure energy prices can be manipulated with the current British electricity market generation competition levels. However given the increased stress on the transmission system post BETTA there is a potential for bid manipulation by northern generators and likewise for offer manipulation by southern generators. Independent of any manipulation the mod will increase the likelihood of system actions significantly polluting energy imbalance prices.
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	Full reporting is a necessity from the start.

Q	Question	Response	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	The % approach makes even less sense and there can be no objective valuation of PAR.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	There can be no objective valuation of PAR
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	
10.	Are there any further comments on P194 that you wish to make?	No	

P194 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:	*Rhona Peat*
Company Name:	*ScottishPower*
No. of BSC Parties Represented	*6*
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*
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*

Q	Question	Response	Rationale

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Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	While ScottishPower support the principle of sending clearer price signals to the market which would better facilitate BSC objective (b) *"the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System"*, we believe that this is unlikely to happen with this modification. P194 does not encourage capacity to be made available at times of system stress and will increase the risk that less reliable plant will not be made available at all due to the potentially damaging imbalance charges associated with unexpected plant failure. Acceptance of the modification will greatly increase the risk of generators going out of business and also significantly increase the cost to participants in managing the risk exposure. This would be bad for promoting competition, as potential new entrants would be more reluctant to participate in such a market.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	Cost reflective energy imbalance prices are generally more extreme than forward prices and so we feel that the current baseline provides sufficient incentive for Parties to manage their risk by balancing their position ahead of time. It is the asymmetric property of imbalance prices that may lead to Parties taking a long position into the balancing market as due to the possibility of unexpected plant failure there is always a higher risk of extreme system buy prices than extreme system sell prices.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	We believe that the current arrangements provide sufficient incentives for Parties to contract ahead of gate closure (see 2. above).

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Q	Question	Response	Rationale
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?		P194 will only serve to increase imbalance prices to Parties. As discussed in 2, it is the asymmetry of imbalance prices that may encourage Parties to take a long position into the balancing market. There is more risk of the system being short due to unexpected plant failure which would result in potentially damaging SBP over this period. Market participants will manage their position to reduce the exposure to this risk, and as such could take a long position into the balancing market. Any increase in imbalance prices, such as P194 would result in, could encourage more participants to take a long position into the balancing market. Acceptance of the modification would increase the chance of generators going out of business. Small generators, particularly those with unpredictable renewable generation plant, would suffer most under P194 as this plant will be more exposed to imbalance prices which would increase under P194.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	Compared to the current baseline, P194 would increase the chance of one highly priced bid or offer dominating the main imbalance price due to a smaller volume of NIV being used to calculate the price.
6.	Do you prefer any of the implementation approaches described in the consultation document?	A/B/C	We do not believe that P194 achieves the BSC objectives and therefore do not think that the modification should be implemented (see 1 above).

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Q	Question	Response	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	We believe that the current arrangements provide sufficient incentives for Parties to contract ahead of gate closure (see 2. above) and therefore feel that the average pricing methodology is the most appropriate for calculating the main imbalance price. None of the alternatives encourage capacity to be made available at times of system stress, and therefore increase the risk that less reliable plant will not be made available at all due to the potentially damaging imbalance charges associated with unexpected plant failure. The Alternative Modifications also will greatly increase the risk of generators going out of business and significantly increase the cost to participants in managing the risk exposure. This would be bad for promoting competition, as potential new entrants would be more reluctant to participate in such a market.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	We feel that the average pricing methodology is the most appropriate for calculating the main imbalance price and therefore the full NIV should be used to calculate the main imbalance price.
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	
10.	Are there any further comments on P194 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 **17:00 on Monday 24 October 2005** to modification.consultations@elexon.co.uk and please entitle your email '**P194 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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Any queries on the content of the consultation pro-forma should be addressed to Tom Bowcutt on 020 7380 4309 , email address thomas.bowcutt@elexon.co.uk.

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P194 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:	*Lee Wood*
Company Name:	*Gaz de France ESS*
No. of BSC Parties Represented	*1*
Parties Represented	*Supplier/Generator*
No. of Non BSC Parties Represented (e.g. Agents)	*n/a*
Non Parties represented	*n/a*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	There are already very strong incentives to be fully contracted. By systematically increasing imbalance risk this will distort competition. P194 would be a retrograde step back to a market looking more like the pre P78 balancing strategies as participants take longer positions to avoid exposure to higher SBP. This is not in line with BSC Objective (b)
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	The incentives to contract ahead of gate closure, subject to liquidity, are already very strong
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	See answer to Q2 above
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	The increased imbalance costs under P194 are likely to drive parties longer than at present in order to avoid penal top-up prices. Many of the beneficial impacts of P78 in terms of reduction of system length would be lost

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5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Potentially Yes	Where prices are set by a single marginal generator, there is obviously more potential for a generator to manipulate that price, especially were transmission constraints exist
6.	Do you prefer any of the implementation approaches described in the consultation document?	No	We do not support the implementation of this modification
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	This modification will do little to improve liquidity in a market dominated by large Vertically Integrated players, but could introduce extremes of price should a situation arise where the result of a balancing action taken to resolve the imbalance of one party (say a generator trip) results in the need to accept the final 100MWh of offer volume in the BM
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	None	
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	Credit cover requirements are likely to be higher because trading positions will be less “stable” and the total system imbalance is likely to increase.
10.	Are there any further comments on P194 that you wish to make?	Yes	Is it appropriate that the industry should be assessing a modification that will increase SBP, short-term prices and forward prices given the level of concern nationally to excessively high energy prices? Market data is far from perfect – especially the reliability of the Grids prediction for system margin, which feeds into a participants short term balancing decision making process. There are also issues around the timeliness of market data and the impact of gate closure. SBP is published nearly half an hour after the event, the next tradable HH is 5 periods away from this. ie when SBP for P1 is published the next HH to be traded on APX is P6 as the rest are within gate closure (on APX). By P6 the fundamentals of the system could be completely different. Is a higher SBP therefore sending "appropriate signals to the forwards market"?

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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 **17:00 on Monday 24 October 2005** to modification.consultations@elexon.co.uk and please entitle your email '**P194 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 Tom Bowcutt on 020 7380 4309 , email address thomas.bowcutt@elexon.co.uk.

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Dear Sirs,

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

In relation to the ten questions contained within your notes of 7th October 2005, and the associated Consultation for P194, we have the following comments to make:-

Q1 Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?

No, for the reasons we outline in our responses to the following nine questions.

Please note our response to any of the following questions should not be construed to lend support whatsoever to this Modification.

Q2 Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?

No. We believe that the current baseline arrangements do provide sufficient incentives on Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices. As has been seen, there maybe occasions where, using the current baseline, the NIV could be 100MWh or less (that is equal to or less than the PAR volume proposed in P194) so the effects are seen now and the market responds. However, proceeding with P194 would mean that in circa 80% of all settlement periods the NIV would be limited to 100MWh and this could distort prices as it could also be prone to manipulation.

We note the comments in section 2.2 of the consultation document that the Proposer felt that:-

"Using a defined volume of actions rather than the single most expensive (in terms of cost to the System) action is intended to avoid any issues raised by using a single or small volume balancing action to set the Energy Imbalance Price."

However, it is clear from looking, for example, at the winter peak and triad days that over the highest price settlement periods, that there are occasions where a single BMU equated to more than 100MWh; i.e. it would have set the PAR volume on its own. Therefore it can only be concluded that the "issues raised by using a single or small volume balancing action to set the Energy Imbalance Price" remain. Accordingly, P194 cannot be said to better than the current baseline which avoids these issues.

We are mindful of the comments in the opening paragraph of section 2.3.1 of the consultation report regarding "concerns at times of energy shortage". However, we note that the P194 methodology would apply potentially to all Settlement Periods.

We agree with the proposition in section 2.4 of the consultation document that:-

"It is widely acknowledged that it is impossible to determine whether or not any individual balancing action was a pure energy balancing action. Therefore, any tagging mechanisms used to remove balancing actions from the pricing calculation not considered purely energy balancing will be imperfect. Taking the volume weighted average of all un-tagged actions could be considered to reduce the impact of any imperfections in the tagging mechanisms. Therefore, using a small volume of energy or a single action to set the price could be considered to increases the influence of actions which are not purely energy balancing."

The current baseline, in taking "the volume weighted average of all un-tagged

actions" is, in our view, reducing "the impact of any imperfections in the tagging mechanisms". We believe that "using a small volume of energy or a single action to set the price" will increase "the influence of actions which are not purely energy balancing" and could, furthermore, be subject to manipulation.

As we noted in our response to P136 (submitted by the same proposer as P194) which was similar to tone to P194 in its movement away from the principle of using an average to a principle of a marginal price:-

"We believe that the incentives should be on each Party to ‘insure’ themselves by forward contracting in sufficient volumes to cover peak periods, with the Transmission Company undertaking the residual balancing in real time, i.e. striking an efficient balance between the two extremes. We believe that the current pricing mechanism provides adequate price signals which adequately incentives Parties to cover their own positions, and therefore do not believe that the extreme price signals that will arise from this Modification are either efficient, necessary or appropriate.
Furthermore, we believe that this Modification, with its inherent risk of exposure to extreme Energy Imbalance Price will, for example, at times of system stress where the system is short, and there is increased likelihood of extreme (i.e. high) System Buy Price, incentivesing Parties to withhold generation in order to avoid the risks associated with plant trip (potentially negating, for example, many of the benefits that are envisaged from the introduction of a Maximum Generation Service).

Therefore we believe that this Modification will have the effect of endangering (rather than enhancing or improving) the security of supply situation."

We believe these comments are equally valid for P194.

Q3 Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?

As noted in our answer to Q2 above, we do not agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices.

Q4 What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?

We agree with the comments expressed in section 2.5 of the consultation document that:-

".... a potential effect of P194 at times of system stress would be to encourage potentially excessive length in the market, i.e. Parties would go (very) long to protect themselves from the risk of exposure to the System Buy Price, thus creating an inefficient level of reserve, by collective over contracting."

We believe that P194 could encourage excessive length in the market and conclude that such an event would likely be inefficient and therefore would not better facilitate the achievement of the applicable objectives.

Q5 Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?

Yes. In addition to our comments in Q2 above, it clear from analysing the peak days (spring, summer, autumn and winter) that over the peak periods, particularly in the winter peak/triad days that there is a propensity for certain types of plant and plant owned by certain BSC Trading Parties to be more likely to set the PAR value. Knowing this these plants/operators could have a heightened ability to manipulate Energy Imbalance Prices to the detriment of other BSC Parties.

We therefore agree with the comments noted in section 2.4 of the consultation

document that:-

"...overall P194 reduces the number of actions used to set Energy Imbalance Prices, increasing the probability that a single action could set the price. This in turn increases the possibility that a single BM Unit could set the price, as compared to the current baseline." In addition "it could be considered that using a single action to set the price could make the arrangements more open to manipulation. Since, if a single action regularly sets the price and this single action is consistently taken on the same BM Unit, this BM Unit may be in a position to manipulate the energy Imbalance Price."

Q6 Do you prefer any of the implementation approaches described in the consultation document?

We prefer the least cost implementation approach (subject to our comments in Q9 below about having the functionality to alter the PAR volume figure 'hard-coded' in).

Q7 Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.

As noted in our response to Q8 below, we believe that if a PAR volume is to be introduced (which we do not support in principle) then it should be set at 500MWh.

Q8 Were P194 to be implemented, what value do you believe the PAR volume should be?

Whilst we do not support the principle of the PAR volume suggested by P194, having examined the information provided by the Proposer we conclude that the PAR volume, if P194 were to be implemented, should be set at 500MWh.

Q9 Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?

We believe it needs to be clear that if we proceed with introducing a 'PAR' functionality that this functionality is specified to allow the currently proposed figure (100MWh) to be altered; recognising that such a variation (from 100MWh) would require a new modification proposal; at a future date if required.

In this a way we 'future-proof' the BSC systems, and thus avoid a potentially expensive software upgrade/change in the future.

In addition we believe that the matter of Credit Cover needs to be explored further. If what the Proposer of P194 seeks comes to pass then Energy Imbalance Prices will rise. This in turn will lead to an increase in the requirements for Credit Cover. If high price events occur outwith UK bank trading hours it may not be possible for parties to obtain sufficient credit cover making it impossible them to trade with other parties which could, in turn, exacerbate the situation with respect to market liquidity as fewer parties are able to freely trade (which could compounding the market shortage situation).

Furthermore, high Energy Imbalance Prices will feed through to end consumers leading to higher electricity prices for customers.

Q 10 Are there any further comments on P194 that you wish to make?

As noted in our answer to Q2 above we believe that comments in our response to P136 (which was similar to tone to P194 in its movement away from the principle of using an average to a principle of a marginal price) are equally valid for P194, namely:-

"Given that it is not possible to apportion the cost of each individual MWh taken to the individual Party that incurred that cost and as a consequence of

there being imperfect information and the inability to differentiate between system and electricity balancing actions, we believe that an average methodology is a more cost reflective methodology than a marginal price methodology.

We believe that this Modification will increase the potential for extreme (i.e. high) Energy Imbalance Prices (as a result of using the marginal energy balancing action) which in turn increases the risk for Parties from exposure to these extreme Energy Imbalance Price. We believe that a marginal imbalance price could reach extreme levels which could have the effect of bankrupting a Party exposed to the imbalance price, and therefore impose such an extreme risk that it cannot be (adequately) factored into the contract / Bid-Offer prices or the Credit arrangements that currently exist within the Code.

Furthermore, we believe that this risk (of exposure to extreme marginal prices) is unmanageable, because there are currently no insurance products available to mitigate the risk of exposure to imbalance charges resulting from a failure of some description after Gate Closure. In addition, we believe that the potential for more extreme Energy Imbalance Prices may prevent the development of such products.

We concur with the comments regarding the distortion of competition that will arise if this Modification proceeds as some Parties will have disproportion benefits (from the RCRC payments) whilst others, such as single site generators that fails, will not receive any benefits. Such an approach is discriminatory.

We believe that a major issue, should this Modification be approved, will be its impact on the credit arrangements. It will dramatically raise the likelihood of Parties going out of business. It will introduce significantly increased risk into the energy imbalance equations (which are more than under the current arrangements).

We believe that this Modification will have a damaging effect on many types of Parties, depending on their particular circumstances, and that this will have a distorting effect on competition.

We believe that this Modification, in so clearly leading to the distortion of competition, cannot be said to better achieve the Applicable BSC Objective 3(c)."

In conclusion we note that the Proposer of P194 (who also proposed P136) stated that P194 addresses the concerns raised in P136. We further note that the Authority summarised (pg 8-12 of its decision letter) "the substantive points [of concern] raised" with respect to P136 as being:-

a) Cost Reflectivity;
b) Incentives to balance;
c) Self balancing;
d) Demand forecasting;
e) Bid and Offer pricing;
f) Smaller generators and new build;
g) Risk management;
h) Transparency;
i) Gaming;
j) RCRC;
k) Credit cover; and
l) Additional amendments to the tagging rules.

We believe that these concerns equally apply with respect to P194. We do not believe that P194 has substantively addressed, or resolved, these concerns and we can therefore only conclude, as the Authority did with respect to P136, that Modification Proposal P194 does not better facilitate the achievement of the applicable objectives and thus should not be implemented.

Regards

Garth Graham

Scottish and Southern Energy plc

P194 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:	Robert Smith
Company Name:	National Grid
No. of BSC Parties Represented	1
Parties Represented	National Grid
No. of Non BSC Parties Represented (e.g. Agents)	N/A
Non Parties represented	N/A
Role of Respondent	BSC Party

Q	Question	Response Error! Bookmark not defined.	Rationale
1	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	Yes	Modification Proposal P194 will enhance the signals provided by imbalance prices to the forward markets. This will increase competition, and security of supply, by encouraging parties to trade ahead of Gate Closure. (This is more fully articulated in responses to questions 2 and 4) This will better facilitate the applicable BSC objective (c) "Promoting effective competition in the generation and supply of electricity, and (so far as it is consistent with) promoting such competition in the sale and purchase of electricity" Encouraging Parties to trade ahead of Gate Closure will benefit security of supply and will therefore better facilitate applicable objective (b) "the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System".

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Q	Question	Response Error! Bookmark not defined.	Rationale
2	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	Yes	BSC parties have no obligation to balance their contractual position prior to Gate Closure. The incentive to resolve their position in the forward market will be solely determined by the difference between likely exposure from imbalance prices and the cost of buying that energy forward. It is therefore imperative that at times of system stress the incentives on participants to cover their contractual position are appropriate. Deriving a volume weighted average price from the entire NIV does not always form a good proxy for the marginal cost of balancing energy. At times of system shortage the differential between the average and marginal cost of resolving NIV, as shown by the proposer's analysis, is likely to be greatest. The forward market clears close to the marginal cost of electricity traded. The Balancing Mechanism clears at the average cost. As such the System Operator is likely to procure electricity at a value greater than SBP to resolve imbalance. Any economically rational participant will seek to minimise costs. If the cost of buying the marginal unit in the forward market is greater than the likely exposure from imbalance prices then economic rationale would dictate that the marginal unit will never be bought in the forward market. Therefore the current methodology is effectively imposing an inappropriate cap on the forward energy price equivalent to the expected level of the average imbalance price. This distortion of the signal of energy scarcity could lead to a perverse incentive where, upon days of system stress, market participants would find it economically beneficial to go short into the Balancing Mechanism. It is specifically on these days that the incentive to balance should be the strongest as the System Operator's options for resolving imbalance are likely to be the most limited. Therefore the current methodology is not reflective of costs and so does not provide appropriate incentives for participants to balance ahead of Gate Closure.

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Q	Question	Response Error! Bookmark not defined.	Rationale
3	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	The aim of this modification proposal is to incentivse parties to more appropriately contract at times where there is concern that the system is under stress. P194 does not Impact widely on other settlement periods as identified by the price analysis provided by the modification proposer. P194 effectively removes the capping effect that the current volume weighted imbalance price methodology has on the forward market price. This methodology more appropriately signals the costs of energy scarcity and as such enables participants to make more informed and appropriate commercial decisions regarding the economics of being in imbalance. (please also see answer to question 2)

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Q	Question	Response Error! Bookmark not defined.	Rationale
4	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	No	The cash out pricing analysis has shown that changes in prices are likely to be very small for the majority of settlement periods in the year. The predominance of large changes in prices are likely to occur in times of system stress where demand is high relative to available capacity and where NIV is very short. P194 will incentivise participants to cover their imbalance positions more appropriately at these times as SBP better approximates the marginal cost of balancing energy. This will alleviate the risk to security of supply at times of system stress and send the correct incentives to the market. The enhanced incentive to balance should create increased liquidity in the forward markets and allow the market price to more accurately reflect the marginal cost of energy. This will enable the forward market to more appropriately signal emerging supply shortages. The forward price curve is a signifcant factor in the economic consideration in the investment in new capacity. As such the more accurately it reflects the likely forward cost of energy the more efficiently the market is able to respond to future demand/supply positions. Adequate capacity to meet future demand requirements is the core requirement of meeting long term security of supply. P194 will enhance the signal to the market to ensure that this incentive to provide adequate capacity is met. Therefore P194 will not encourage rational, economically efficient, participants to consistently increase market length. It will encourage participants to appropriately cover their contractual positions in periods of system stress. These periods account for a relatively small number of the overall settlement periods in a year.

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Q	Question	Response Error! Bookmark not defined.	Rationale
5	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	Although expressed from time to time as a concern it is unclear how price manipulation could be accomplished in the Balancing Mechanism. This has been a view reciprocated by the majority of P194 modification group, and Cash Out Review Working Group, members whenever this subject has been discussed. It is also unclear as to how any manipulation could be exacerbated by this modification proposal. P194 will reduce the volume of actions utilised in the price calculation and as such reduces the probability that any accepted offer would be included in the price calculation. It is further unclear, due the nature of cash flows related to imbalance, RCRC, and BSUoS how a participant could accurately predict they would receive a financial net gain from this activity. National Grid is not aware of any specific examples of manipulation being put forward. If this is an issue of concern we would welcome the opportunity to assess any specific examples of potential for manipulation. As such we do not believe that P194 will enable parties to manipulate prices.
6	Do you prefer any of the implementation approaches described in the consultation document?	B	We believe that option B delivers the benefit of minimising the modification costs whilst maintaining the ability of market participants to replicate the imbalance price calculation from it's component parts.

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Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	Yes / No	We believe that a fixed volume PAR value best resolves the described defect. It tends more towards being a marginal action the greater the value of NIV, the time at which average and marginal cost of NIV tend to diverge by the greatest amount, whilst always guaranteeing that a small volume action will not set the imbalance price. Alternative options such as a percentage, or minimum number of actions, do not guarantee protection against a small volume of actions setting the imbalance price. This was a concern voiced in previous pricing modification proposals. We believe that a PAR of 100MWh is the best trade off between approximating the marginal cost of resolving NIV whilst recognising the concerns expressed in relation to small volumes. National Grid believes this assertion is supported by the analysis provided to the modification group.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	100 MWh
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	

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Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Are there any further comments on P194 that you wish to make?	Yes	National Grid continually endeavours to improve the provision of pertinent information to the market. Initiatives taken in relation to consultations on REMI and the Reserve Review have improved the information provided to the market. Specifically information regarding the likelihood of there being sufficient supply to meet demand in any period of time. This evolving process will better enable participants to identify these periods of system stress and determine their course of action accordingly. It is entirely appropriate that the electricity market adopt an imbalance pricing methodology with a PAR value of 100MWh. The electricity System Operator is the only counter party available post gate closure and is the sole residual-balancer of the system at that time. It is therefore prudent for the pricing methodology to mitigate against very small actions, whose benefit in balancing the system may not be conclusively proven, setting the imbalance price. The gas transmission system does not have the concept of gate closure. The gas System Operator is not the sole entity able to resolve residual imbalance. The purchase of gas in this context is as much a signal to the market to revisit any anticipated contractual imbalance position as it is a physical resolution of any demand/supply imbalance. Marginal pricing is also necessary in the gas market to ensure that appropriate incentives exist for the shipper to deliver accepted residual actions. This is due to the nature of the co-mingled deliveries and off-takes that exist on the gas system. Therefore it is entirely appropriate that the marginal action, regardless of size, be utilised in setting the gas imbalance price.

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P194 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:	*Libby Glazebrook*
Company Name:	*International Power (IPR)*
No. of BSC Parties Represented	*4*
Parties Represented	*First Hydro Company, Deeside Power Development Company Ltd, Rugeley Power Ltd, and Saltend Cogeneration Company Ltd*
No. of Non BSC Parties Represented (e.g. Agents)	*None*
Non Parties represented	*None*
Role of Respondent	*Generator*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	Yes	Whilst both SBP and SSP will be 'marginal', the effect will not be symmetrical, SBP is likely to be far more volatile. P194 will not therefore encourage participants to balance, as it will probably encourage them to take a slightly longer position than they do now. This suggests that market operation may be less efficient - and that the modification does not facilitate achievement of objective B. However, P194 will promote competition in generation (objective C) as the risk of a higher SBP will encourage participants to trade in advance of gate closure. On balance, IPR believes that the mod will better facilitate the BSC objectives.

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Q	Question	Response	Rationale
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	Yes	To an extent, IPR agrees with the proposer that the modification will improve incentives to contract ahead of gate closure. However we believe that these incentives could be applied more consistently and effectively via other solutions. Cashout prices do not currently reflect the costs incurred by the SO in balancing the system. To give an example of this, in 2004, the average accepted off price was £57.53/MWh whereas SBP (which includes forward trades as well) averaged at £24.94/MWh. BSC Parties can (and do) offer contracted plant that into the BM either by taking a short contract position or by buying themselves out of their contract position. Neither of these makes additional plant available to the BM (or the system). This could create security of supply problems at times of system stress. Parties are able to do this because the SBP does not reflect the cost of balancing the system - both the cost of going short in the BM and short term prices to buy out the contract position are less than the price they will receive for any accepted offers. If cashout prices were to better represent the costs of balancing the system, the improved relationship between short term market prices and the SBP would tend to improve maket efficiency overall. In these circumstances, plant offered into the BM would therefore be providing additional MWs which would improve security of supply and better facilitate the achievement of BSC objective B. In considering this modification, Ofgem should therefore examine whether it improves cost-reflectivity in relation to the SO's costs of operating the balancing mechanism.

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Q	Question	Response	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	The threat of higher SBPs will provide an incentive to avoid going short. P194 will however make the system longer.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	P194 will make the system longer, but IPR does not believe that this will constitute 'excessive length' (assuming 100 MWh marginal chunks)
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	Even with a marginal cashout price we do not see how imbalance prices can be manipulated. A 'chunky' marginal cashout prices will not therefore allow manipulation either.
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	On occasions it is useful to see exactly how imbalance prices have been derived. Option A may not allow this. Since Option C does the same as B but at higher cost and at a later date, it seems sensible to adopt Option B
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	A percentage PAR value will result in the PAR volume being highly variable dependent on the size of the NIV. On alternative PAR volumes please refer to Q8.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	100MWh	A PAR value higher than 100MWh would not achieve the objective of creating a proxy of the marginal cost of energy balancing. Less than 100MWh might allow high prices acceptances to have an undue influence on the price calculation
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	The assessment should examine whether the mod would ensure that cashout prices do reflect the costs incurred by the SO in balancing – see answer to Q2
10.	Are there any further comments on P194 that you wish to make?	Yes	To fully reflect the most expensive/cheapest (offers/bids), NGC's trades will need to be disaggregated to establish whether or not some/all should be part of the PAR volume. This level of market transparency is important when moving away from an averaging methodology.

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P194 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:	*Martin Mate*
Company Name:	*British Energy*
No. of BSC Parties Represented	*5*
Parties Represented	*British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, British Energy Direct Ltd, Eggborough Power Ltd, British Energy Generation (UK) Ltd*
No. of Non BSC Parties Represented (e.g. Agents)	*-*
Non Parties represented	*-*
Role of Respondent	*Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	Yes	*By increasing the incentive on parties to balance their own positions:* *1. BSC Objective (b) relating to system operation should be better met by reducing the work of and cost to the System Operator. The electricity system should be inherently more balanced, with parties procuring reserve/options to suit their individual requirements..* *2. BSC Objective (c) relating to competition should be better met by further focussing the costs of balancing their position on parties themselves. Parties different balancing performance and risk profiles can be self-managed rather than sharing costs under an average imbalance price. Hopefully increased incentives to self-balance will promote liquidity in energy and reserve/option/hedging/insurance markets.*

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Q	Question	Response	Rationale
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	Yes	*The requirement for the System Operator (SO) to procure reserve and 'supplementary' reserve suggests that parties are not incentivised to procure this energy or reserve themselves individually. It is not self-evident that shared procurement and shared risk via the SO is the most efficient method, and it may be inhibiting more novel market solutions.*
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	*More expensive imbalance prices will clearly increase parties incentives to contract forward for energy or reserve to avoid imbalance. We would hope that the increased risk would promote increases in liquidity in energy products and hedging/insurance options.*
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes / No	*We would expect market length to be increased at times of low system margin where risks associated with shortfall exposure are high, and to be reduced at times of high system length, as parties take measures to avoid imbalance exposure. National Grid analysis suggests that the effect at other times is likely to be relatively small. These impacts appear desirable.*
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	*Because fewer BM Units would set the price more often, it is obvious that BM Units at the margin have more potential than at present to set prices. However, modification analysis suggests that no single BM Unit or company is dominating imbalance price setting. We would expect the System Operator and Ofgem, and any party suspecting such behaviour, to raise the issue with Ofgem or raise a modification to overcome such manipulation.*
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	*Approach B – changes to reporting introduced on initial implementation - is only slightly more expensive than approach A (no change to reporting). Approach C is more expensive than both, and appears to has no significant advantage.*

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Q	Question	Response	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	*The appropriate value of PAR is to some extent subjective given the various assumptions that exist in the balancing mechanism. Setting a value of 100 MWh could be seen as a starting point in a long term empirical process of finding the best value. We note that assessment analysis suggests the 100 MWh value proposed has the effect of setting price using more than one BM Unit.in about 95% of periods, allaying fears of small volumes and single BM Units setting extreme prices in an anomalous manner.* *Using a PAR which is a fixed percentage of NIV (with or without a minimum value) is more complicated with little obvious benefit.*
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	100 MWh	*If experience were to provide evidence that the value is inappropriate, a modification could be raised to change it.*
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes / No	*Use of a quasi-marginal method could increase the frequency and significance of anomalous price setting by actions taken by the System Operator for reasons other than pure energy balancing. With the current averaging arrangement the effect of non-energy actions is diluted. A method of substituting for clearly anomalous actions in price setting should be investigated, perhaps similar to the existing manifest error provisions.*
10.	Are there any further comments on P194 that you wish to make?	Yes	*Use of a quasi-marginal method would also increase the probability of extreme prices setting imbalance price at a level beyond that which would occur in a market with more real time price visibility and genuine demand response. Consideration should be given to setting a cap on imbalance prices at a level just above that where most suppliers or customers or generators would respond if the price were visible to them in real time.*

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Sharif Islam*
Company Name:	*Total Gas & Power Limited*
No. of BSC Parties Represented	*1*
Parties Represented	*Total Gas & Power Limited*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*(Supplier/ Trader)*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	Total Gas & Power Limited (TGP) are not persuaded of the proposers assertion that P194 better facilitates the achievement of the Applicable BSC Objectives, b) and c), since the asymmetry in exposure between SSP and SBP coupled with the inability of certain parties to more accurately balance their positions will in all likelihood result in the most efficient action by these parties to ensure SBP exposure. TGP believe this increased exposure will not only result in excessive length but is also likely to deter market entry by potential suppliers. Hence P194, in our view is unlikely to better facilitate the objectives of more efficient, economic and co-ordinated operation of the system by NGC neither is it likely to promote effective competition between suppliers.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	The current imbalance price methodology provides a powerful incentive to contract in advance of gate closure to avoid SBP, however, analysis of historic behaviour suggests that typically due to the asymmetry of exposure the most rational contracting behaviour is to slightly over-contract and be long.

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Q	Question	Response	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	Please refer to answers above.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	Please refer to answers above.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	TGP consider the Price Average Reference (PAR) Volume increases the probability of the price being influenced by fewer parties and thus more susceptible to these concerns. In addition we find it to be highly arbitrary.
6.	Do you prefer any of the implementation approaches described in the consultation document?	A/B/C	No
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	Please refer to our answers above.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Zero	
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?		No Comment.
10.	Are there any further comments on P194 that you wish to make?	No	

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	Mark Manley
Company Name:	British Gas Trading (BGT)
No. of BSC Parties Represented	
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	BGT do not believe the modification proposal better facilitates the applicable BSC objectives. BGT do not believe this modification will improve the economic, efficient and co-ordinated operation of the Transmission System by the Transmission Company or better facilitate competition in the generation and supply of electricity. The analysis undertaken suggests that P194 will increase energy imbalance prices. The historical analysis indicates that average imbalance prices will increase but not significantly, however in certain settlement periods prices could be significantly higher than the current baseline. The risk of being exposed to that increase will encourage Parties to carry additional length. The market is already pre-dominantly long and incentivising parties to contract 'longer' will undermine the efficient operation of the market. BGT believe that further increasing market length will have a negative impact Applicable BSC Objective (b). Concerns have also been expressed previously that if a generator trips within gate closure and the effects

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Q	Question	Response	Rationale
			of being exposed to significantly increased market prices may result in plant being withdrawn from the market to protect against that risk. If the incentive properties of P194 encourage this behaviour this will also be detrimental to Applicable Objective (b). BGT also have concerns that the proposed change will result in system actions more heavily affecting imbalance prices. Generally, the current methodology lessens the concerns surrounding the system/energy split by taking a weighted average of the entire stack. Having a more tightly constrained PAR will increase the likelihood of system actions polluting the energy imbalance prices. BGT do not believe that a change which increases the prevalence of system actions in the calculation of energy imbalance prices can better facilitate competition in the generation and supply of electricity. Imbalance prices are intended to reflect the energy costs incurred by the System Operator (SO) and P194 could undermine the original intent of the calculation. BGT do not agree that increasing imbalance prices alone will help to promote new build and thereby promote competition. Building a power station is a significant investment and BGT would not build a power station simply on the basis of imbalance prices. BGT also believe there is some merit in the argument that uncertainty and constant speculation about changing the rules for calculating imbalance prices creates uncertainty and this could undermine the incentives for new build. BGT also believe there needs to be a greater justification for adopting a PAR of 100MWh.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy	No	The current baseline does provide sufficient incentive for Parties to contract ahead of Gate closure. BGT agree with the view expressed in the group that the imbalance position of participants is, in some

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Q	Question	Response	Rationale
	Imbalance Prices?		way, reflective of their economic assessment of the costs of resolving their positions forwards and cashout prices.
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	Although it may encourage parties to contract ahead of Gate closure, over and above the current levels of contracting, it might not be a long-term outcome of the proposal. BGT have concerns about the lack of liquidity in the market. Increasing imbalance prices may encourage parties to contract ahead, however the lack of liquidity may make it difficult to forward contract. Concerns expressed previously by generators in respect of tripping within gate closure and being exposed to a high level of imbalance prices may also adversely impact liquidity. BGT also believe that if this change is approved parties will still face the same economic issues of forward contracting against the cost of imbalance prices. Whilst parties may be prepared to forward contract to resolve their imbalance, if generator prices increase then parties will still be faced with the economic choice to forward contract or pay the outturned imbalance charges. The same issues will exist but they will just exist at a higher level.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	BGT believe that Parties will be concerned about being exposed to an increased level of imbalance prices. This will encourage additional length in the market and this may incentivise excessive length in the market.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	BGT do not believe P194 increases the potential for manipulation of imbalance prices. BGT believe there are too many unknowns for the price to be open to manipulation.
6.	Do you prefer any of the implementation approaches described in the consultation document?	A/B/C	All of the implementation approaches carry a significant implementation cost and a substantial ELEXON resource cost. BGT would like to more fully understand the implications imposed by approach A. However in terms of being unable to verify imbalance prices BGT do not have any significant concerns in this area. BGT's initial position is to support implementation approach A.

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Q	Question	Response	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	BGT believe the PAR value is arbitrary and believes that further justification needs to be developed. BGT also has concerns about setting a parameter based upon historic values. As with all historic analysis participant behaviour can change with the implementation of a new methodology. BGT have concerns that setting the PAR on the basis of historical analysis could undermine the validity of Energy Imbalance prices.
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	
10.	Are there any further comments on P194 that you wish to make?	No	

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P194 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Sam Murray*
Company Name:	*Uskmouth Power Limited*
No. of BSC Parties Represented	*1*
Parties Represented	*Uskmouth Power Limited*
No. of Non BSC Parties Represented (e.g. Agents)	*0*
Non Parties represented	
Role of Respondent	Generator

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	Yes	By sharpening the incentives to balance the system should run in a more economic and efficient manner. The modification would increase the role of forward trading and ensure more accurate balancing in real time. As well as encouraging better forecasting the modification should also increase competition by encouraging more trading to fine tune positions ahead of gate closure.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	Yes	While the current regime does provide incentives to balance, the proposer is aiming to sharpen the signals at times of system stress, where NGC may take more actions as suppliers have not fully covered their positions. By making the cash-out price more reflective of the cost of short term energy provision the suppliers are more likely to contract forward to meet their demands. As prices in the forward markets are likely to be cheaper (due to the increased availability) the suppliers should end up delivering more economic power to their customers. It also sharpens the signals to generators to keep their generation reliable, as short term tripping will come at a higher price.

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Q	Question	Response	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	Uskmouth is slightly unclear how this differs from question 2. It does not provide a "new" incentive as it is altering a parameter (cash-out) to which parties do currently respond. It is however making the signal sharper as the value will increase.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?		The modification is likely to slightly increase length, but at times of system stress rather than across all periods. However, the market has more available and cheaper power available ahead of gate closure and it is therefore likely to be more efficient for suppliers to cover their demand in the market rather than via cash-out.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	Uskmouth does not think the modification will impact the way that parties submit bids and offers into the balancing mechanism.
6.	Do you prefer any of the implementation approaches described in the consultation document?	B	The benefit of the modification will only feed through if the prices are transparent. Parties must also be able to verify prices in order to meet their own financial controls.
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	Yes	The setting of PAR is probably best not hard-wired into the code but, similar to CAP, left as a figure to be reviewed as/when it is felt appropriate. The Panel should review PAR after one year and then as and when requested.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	100	This figure seems a good starting point, but we would prefer it remained under review (see Q7).
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	
10.	Are there any further comments on P194 that you wish to make?	No	

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Respondent:	*Andrew Pearce*
Company Name:	*BP Gas Marketing Ltd*
No. of BSC Parties Represented	*One*
Parties Represented	*BP Gas Marketing Ltd*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*Trader*

Q	Question	Response Error! Bookmark not defined.	Rationale

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	Against objective c) promoting competition. It will increase the spread in imbalance charges without any cost justification as payments to generators will remain pay-as-bid. This will: • inappropriately increase costs to smaller suppliers vis-à-vis larger suppliers given the relative predictabilities of demand and the ability to trade to a balance at equivalent cost. • inappropriately increase risk to single site participants when their export/offtake changes, as there would be no portfolio mitigation. • inappropriately increase imbalance charges to variable output generation, such as wind. Against objective b) efficient operation. It will cause suppliers to go excessively long at peak (and excessively short overnight) hence they will be purchasing excess output from generators that NGT then has to sell down (generally at a significantly lower price). It will be an inefficient incentive to excessive imbalance – the net spend on BSUoS may reduce but this is not the same as efficient operation, which can only occur if imbalance is minimised.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	Generators are not permitted under the Grid Code to carry reserve for themselves, hence can only contract at expected output level and pay imbalance when they trip. Suppliers already contract for more than their expected demand (although to a lesser extent than before P78 i.e. they are more balanced than they were).

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	Yes	At peak periods with higher probability of the system as a whole going short the potential for significantly higher SBP would act as an incentive for suppliers to over contract to a greater extent than they do now. During trough periods with potential negative prices the incentive will be to under contract. It would simply not be efficient for suppliers to contract to cover generator trip risk as well. NGET should be doing this through reserve contracts – there is a serious risk of both double-counting of reserve provision or else of reserve being carried on the wrong machines, reducing net efficiency.
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	This will incentive excessive length during non trough periods.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	Yes	We do not believe that pure energy prices can be manipulated with the current British electricity market generation competition levels. However given the increased stress on the transmission system post BETTA there is a potential for bid manipulation by northern generators and likewise for offer manipulation by southern generators. Independent of any manipulation the mod will increase the likelihood of system actions significantly polluting energy imbalance prices.
6.	Do you prefer any of the implementation approaches described in the consultation document?		None of the suggested alternatives will improve on the baseline as this whole approach is wrong

Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	The % approach makes even less sense and there can be no objective valuation of PAR.
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	There can be no objective valuation of PAR
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	Yes	The price distortion through the missing of bids and offers in energy price order due to the system balancing value (fast response, etc). The incorrect trade tagging of system balancing actions, consider the current Scottish participants setting cashout to a negative value.
10.	Are there any further comments on P194 that you wish to make?	Yes	Within cashout non delivery is not taken into account, in this case where maxgen is called and the 100MWh could effectively be non delivered, so a price is set by virtual generation

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 **17:00 on Monday 24 October 2005** to modification.consultations@elexon.co.uk and please entitle your email '**P194 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 Tom Bowcutt on 020 7380 4309 , email address thomas.bowcutt@elexon.co.uk.

P194 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:	*Andrew Taylor*
Company Name:	*InterGen UK Ltd*
No. of BSC Parties Represented	*4*
Parties Represented	*SPAL,IETS,CECL,RPCL*
No. of Non BSC Parties Represented (e.g. Agents)	*4*
Non Parties represented	*SPALPA,IETSPA,CECLPA,RPCLPA*
Role of Respondent	*Generator/Trader*

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification P194 better facilitates the achievement of the Applicable BSC Objectives?	No	The existing cashout arrangements are more reflective of the true cost of being in imbalance. This amendment will indiscriminately penalise generators in a way that does not reflect specific circumstances on the day. Further amendment of cashout arrangements will increase the regulatory uncertainty in the power industry and therefore inhibit further investment in new generation. It appears to be change for change sake.
2.	Do you agree with the view of the Proposer that the current baseline does not provide sufficient incentives for Parties to contract ahead of Gate closure to avoid exposure to Energy Imbalance Prices?	No	As in Q1
3.	Do you agree with the view of the Proposer that P194 would provide additional incentives for Parties to contract ahead of Gate Closure to avoid exposure to Energy Imbalance Prices?	No	As in Q1

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Q	Question	Response Error! Bookmark not defined.	Rationale
4.	What overall impact do you believe P194 will have on Parties (i.e. do you agree with the view expressed that P194 would encourage excessive length in the market)?	Yes	We would see a return to pre P78 conditions where generators would be unwilling to declare full availability in the Balancing mechanism during periods of system distress due to the extreme and unpredictable nature of imbalance prices.
5.	Do you believe P194 would increase the potential for Parties to manipulate Energy Imbalance Prices?	No	As in Q1
6.	Do you prefer any of the implementation approaches described in the consultation document?	None	
7.	Do you believe any of the potential Alternative Modifications identified would better facilitate the achievement of the Applicable BSC Objectives (as compared to either the current baseline or Proposed Modification P194)? Options being considered include alternative PAR Volumes and the use of a PAR Volume which is a fixed percentage of NIV.	No	As in Q1
8.	Were P194 to be implemented, what value do you believe the PAR volume should be?	Value	*Not applicable*
9.	Does P194 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	No	*Please give rationale:*
10.	Are there any further comments on P194 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 **17:00 on Monday 24 October 2005** to modification.consultations@elexon.co.uk and please entitle your email '**P194 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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