



Analysis of the potential for FPN gaming in relation to P215

Materiality of FPN Errors (intentional or unintentional)

The P215 Modification Group investigated the material effect of any FPN errors on the P215 credit calculation. The group considered an example generation portfolio that was defined as follows:

- Energy production at rate of 1 MW;
- Equivalent to ½ MWh in every Settlement Period; and
- Portfolio is short (contracts are much higher).

The effect of different FPN errors on the P215 indebtedness calculation is shown in the following charts (figures 1 and 2).

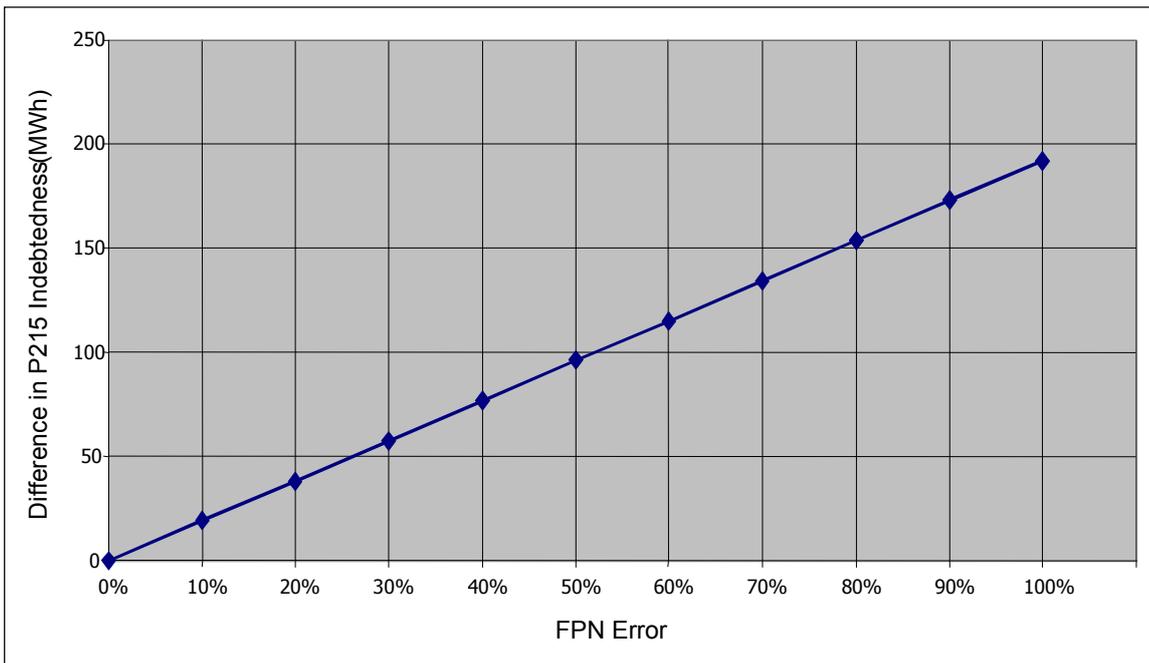


Figure 1: Difference in P215 Indebtedness

Economic Impact of FPN Errors

The group noted that Parties could potentially extract cash from the credit arrangements, in proportion to the reduction of their calculated peak indebtedness. This would be a **one-off transaction only**.

The P215 Modification Group then considered the annual impact of this one-off transaction by comparing the annual interest paid by ELEXON with the annual rate of return that the Party may be able to achieve using the cash extracted.

The following diagrams (figures 3 and 4) summarise the impact, assuming a 1% difference in the rates.

P215 Impact Assessment – Attachment 2

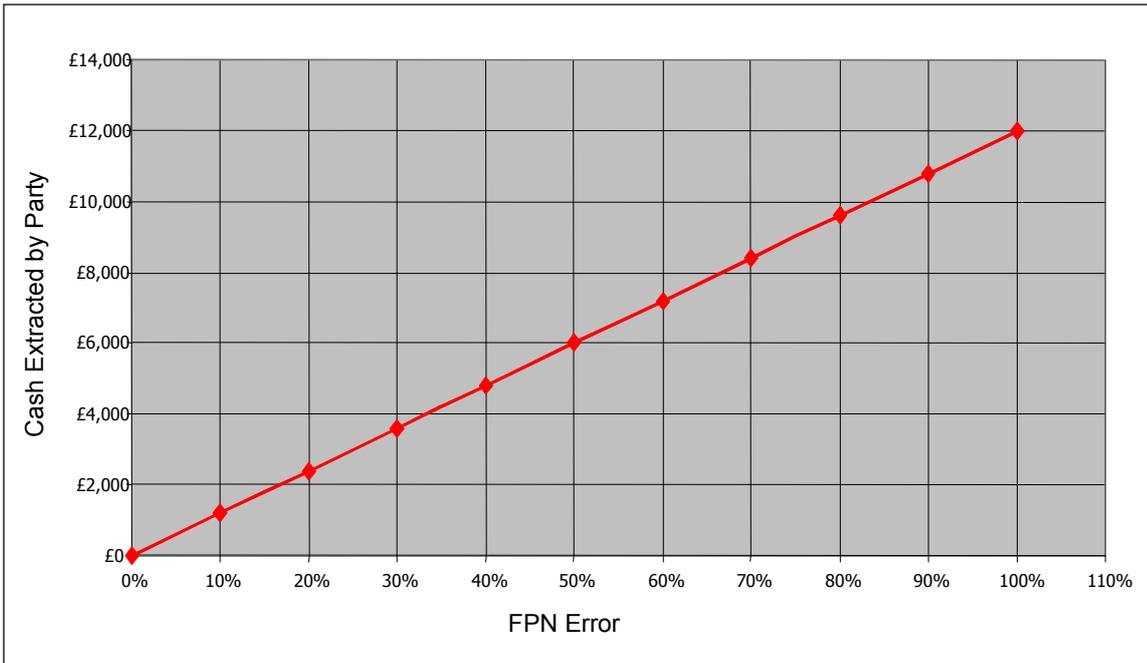


Figure 2: Cash Extracted by Party (one-off transaction at CAP = £50/MWh)



Figure 3: Annual Income at Different Interest (or Return) rates

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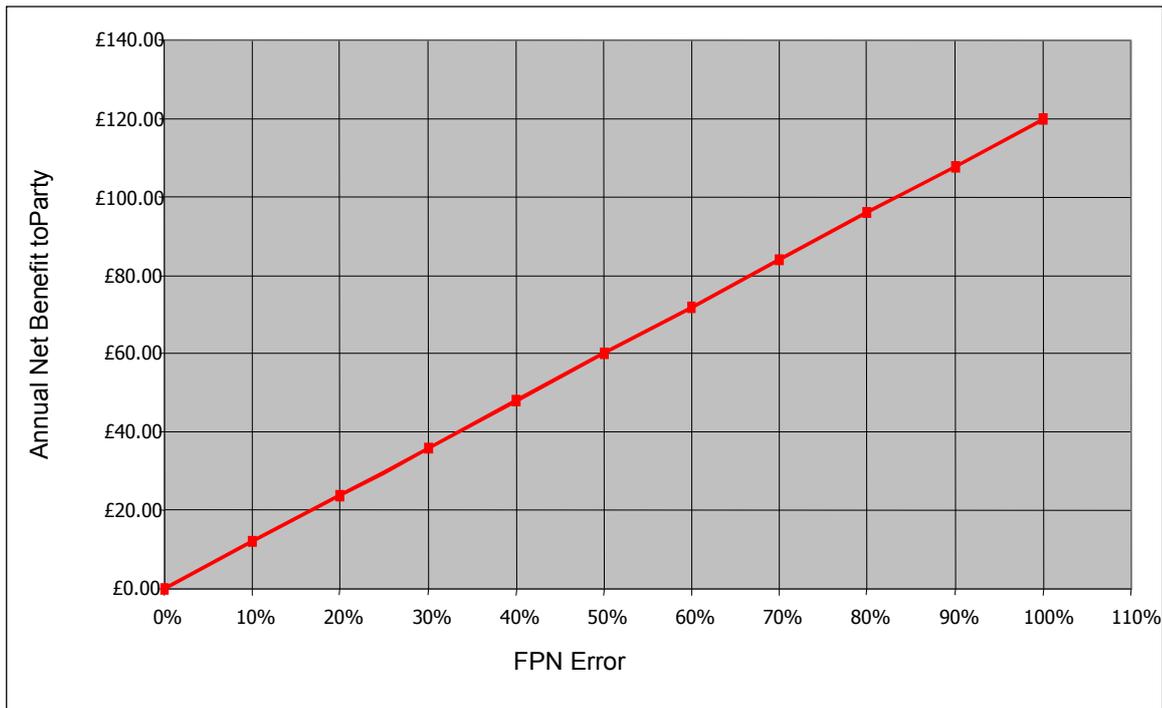


Figure 4: Annual Net Economic Benefit for each percentage difference

Effect on Prices

The group apportioned the annual cash flow to the amount of energy generated during the year to find the impact on energy prices.

- Annual production = 8,760 MWh

The next chart (figure 5) summarises the result.

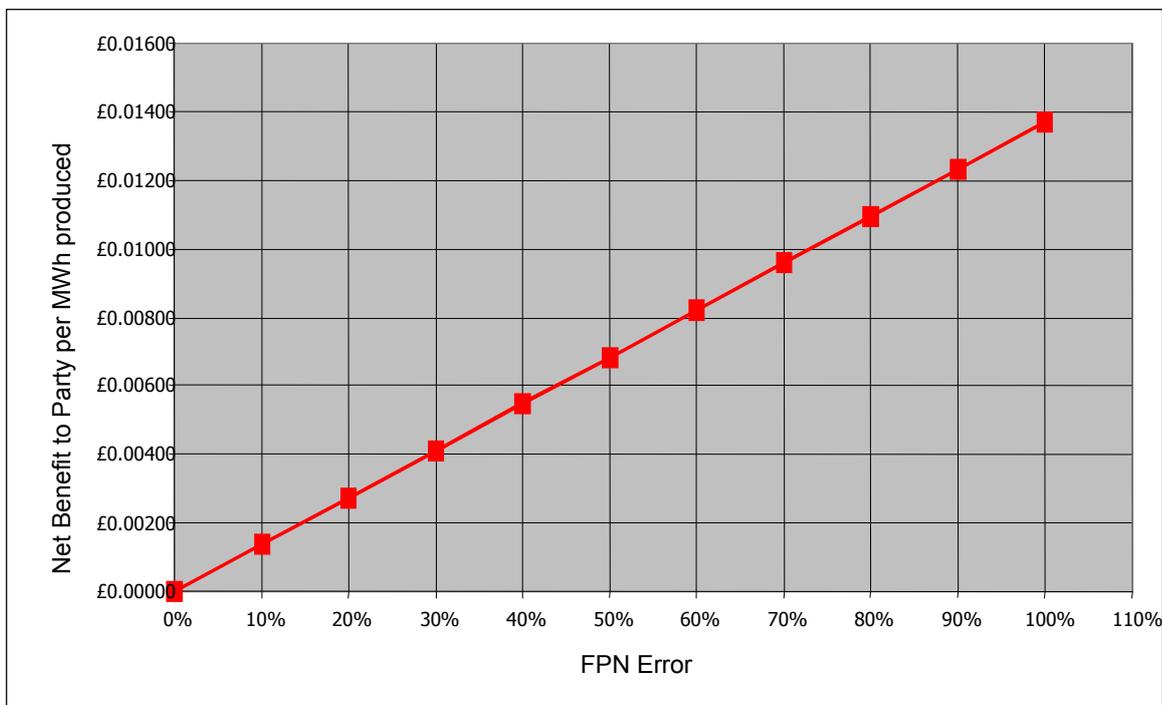


Figure 5: Annual Net Economic Benefit for each percentage difference per MWh produced

P215 Impact Assessment – Attachment 2

Conclusions

- The economic impact of FPN errors is very small.
- Incentives for FPN gaming are of very small materiality.
- There are other reasons why FPN gaming is unlikely to occur:
 - It is fraudulent behaviour that would attract Ofgem's attention.
 - It is inconsistent with the Party's obligations under the Grid Code and license conditions.
 - It could adversely affect the Party's Bid-Offer activity, as any inflated FPNs would reduce Accepted Offer volumes.
 - It could lead to the introduction of information imbalance charges or other measures designed to prevent inflation of FPNs.