Report Phase Consultation Responses: P282 'Allow MVRNs from Production to Consumption or Vice Versa'

Consultation issued on 23 October 2012

What stage is this document in the process?

01 Initial Written Assessment

02 Definition Procedure

03 Assessment Procedure

04 Report Phase

We received responses from the following Parties

Company	No BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
National Grid	1 / 0	Transmission Company
Eggborough Power Limited	1 / 0	Generator
RWE Supply & Trading GmbH	10 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Party Agent
Drax Power Limited	1 / 0	Generator
TMA Data Management Ltd	0 / 1	Party Agent
IBM (UK) Ltd. (for and on behalf of ScottishPower)	9 / 0	Supplier / Generator / Trader / Consolidator / Exemptible Generator / Distributor
Centrica	11 / 0	Generator / Trader / Supplier / BSC Party
GDF SUEZ Energy UK-Europe	7 / 2	Generators / Trading Parties Party Agents
SmartestEnergy	1 / 0	Supplier / Consolidator
Statkraft Markets GmbH	1 / 0	Generator / Trader / Exemptable Generator / Party Agent
EDF Energy	10 / 0	Generator / Supplier / Party Agent / Consolidator / Exemptable Generator / Trader
E.ON	5 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator

Question 1: Do you agree with the Panel's initial recommendation that P282 should not be approved?

Summary

Yes	No	Neutral/No Comment
6	6	0

Responses

Respondent	Response	Rationale
National Grid	Yes	We believe that P282 may reduce the incentive for Parties to go long, subsequently increasing volatility and uncertainty for the System Operator which could result in additional cost as more reserve may need to be held. We believe that this is not economic or efficient and does not therefore support Applicable BSC Objective (b).
Eggborough Power Limited	Yes	On balance we believe that the modification does not better facilitate the relevant objectives, in particular objective (c). Eggborough believes that the modification will potentially damage the competitive position of companies such as ours, a single site small player, who will face greater financial risk from imbalance, and associated cash flows, than our larger competitors. While we believe that smaller players will be worse off under this proposal and the work done by the group seem to support that view. This would not only enhance the competitive advantage for larger parties, but also create a barrier to entry. The group's analysis shows that these parties are typically facing higher relative costs. While the potential increases in RCRC exposure seem to have been examined, the change in imbalance (or no change) highlights that single account parties lost as the other parties often gain. For EPL we lose on both RCRC and relative imbalance costs, which are not specifically captured under the analysis, but it is clear that the bigger portfolios typically see reduced costs. By facilitating parties "internal" trading, the modification will have a negative impact on wider market liquidity. The BSC applicable objective to promote effective competition cannot therefore be better met with the modification. Ofgem is currently undertaking a project to try and improve market

Respondent	Response	Rationale
		liquidity, which we welcome, but future initiatives must not be hampered by BSC rule changes. The effect on competition will also feed into the wider market and make future investments more difficult. It would be detrimental to make a change that further facilitates passive sales and purchases rather than market based trading. Like many players on one side of the market, along with developers, it is vital to us that the traded market improves, with a robust forward curve against which to transact. Liquidity is also needed for the implementation of DECC's EMR proposals, notably their FIT CfD proposals will only be efficient if there are liquid forward markets. EPL is also concerned that the modification reduces the incentives on each party to "balance" their positions, in particular the BMUs. If the risk of imbalance is spread over more meters the cost of not following FPNs will be reduced. Again this is a significant benefit to larger portfolio players. If parties do not balance as carefully the wider system is likely to pick-up additional costs in balancing actions taken by the SO. EPL believes the current balancing incentives are relatively robust and should not be undermined, especially in a way that would only reduce incentives on some parties, but not all as this further distorts competition.
RWE Supply & Trading GmbH	Yes	We do not believe that P282 better meets the BSC objectives. We remain concerned about the competitive effects of the proposal, the impact on liquidity and the potential increase in costs for parties that trade on single accounts. Consequently we do not believe that the proposal will better meet Objective C.
Drax Power Limited	Yes	We agree with the Panel that P282 does not better facilitate Applicable BSC Objective's (b), (c) and (d). As such, we agree with the initial recommendation that P282 should not be approved. We believe this for the following three reasons: 1) According to the Elexon analysis, generators and suppliers should be able to capture imbalance cost savings in the region of £15m to £20m per annum in total. However, this does not represent a significant industry saving in imbalance costs. Moreover, the Workgroup's analysis has shown that the proposed solution will create perverse incentives with regards to

Respondent	Response	Rationale
		individual parties' balancing incentives. This is because the analysis has shown that the biggest 'winners' from the P282 solution tend to be those parties who are relatively poor at balancing their position i.e. have unreliable generation and/or inaccurate demand forecasting. This will dilute the balancing incentives created by dual cash-out pricing. Moreover, incentives to invest in reliable generation enhancements and more accurate demand forecasting could be weakened. The potential costs associated with these perverse incentives are likely to negate the relatively trivial cost savings that have been modelled. 2) We are concerned that the perverse balancing incentives created by P282 will increase the costs the SO incurs to manage the transmission network. The principal risk is that the costs associated with managing balancing risks are shifted from one party to another (in this case from generators/suppliers to the SO) regardless of which party is best placed to manage the risk. This is likely to result in increasing the total costs associated with balancing activities. We agree with the analysis produced by National Grid which states that P282 is likely to increase the number of balancing actions it will be required to execute. Consequently, the need to procure more reserve is likely to increase the SO's balancing costs. 3) It is likely that P282 will only allow those who operate on both sides of the market (generation and supply) to realise material cost savings, particularly those who currently make use of ECVNs to help balance their position. This could further entrench the positions of incumbent utilities. It is highly unlikely that 'one sided' parties will be able to take advantage of the potential benefits associated with P282, as the commercial obstacles (rather than the BSC arrangements themselves) to setting up inter-company agreements are too great. This could represent a slight barrier to entry and expansion.
TMA Data Management Ltd	Yes	-
IBM (UK) Ltd.	No	ScottishPower STRONGLY disagrees with the Panel

Respondent	Response	Rationale
(for and on behalf of ScottishPower)		majority view that this Modification should be rejected. ScottishPower believe that the Modification WOULD better achieve the applicable objectives (b) and (c) for the reasons stated in full within our Assessment Consultation response - in particular the ability for Parties to better balance their positions in the run-up to Gate Closure, driving cost reductions for National Grid, Parties and ultimately consumers. An overriding design principle of the NETA and BETTA arrangements is the enabling of Party balancing – indeed, significant time, effort and money has been spent by the industry in optimising this process over the years. The penalties for being out of balance can be financially ruinous for Parties, and this carrot and stick approach to balancing has led to a market that is, in the main, well balanced and efficient. However, there is an artificial limit to the balancing actions that Parties can achieve using ECVNs. The inherent inefficiencies of the current notification system mean that contract notification effectively "shuts down" approximately 30 minutes before Gate Closure. Parties may have little or no opportunity to manage unplanned changes within that window and with the increasing prevalence of wind in many Generators' portfolios, this problem is becoming more pressing all the time. The use of MVRNs would remove this artificial barrier, providing a more efficient outcome for Parties and consumers alike. At the moment Parties are paying for central system inefficiencies, either through increased imbalance charges - when they cannot balance closer to Gate Closure - or through increased hedging costs. This modification provides an opportunity to obviate both and, ultimately, reduce the costs to consumers. If this does lead to a slight increase in balancing costs then that ought to be regarded as the price of exposing the true cost of balancing the system, hitherto hidden behind system-induced Party imbalance. If a cornerstone principle of the NETA arrangements is 'balancing leads to a more efficient market', then this Modification should be seen as a further enabler of that principle and should be approved.
Centrica	Yes	We agree with the Panel's majority view that P282 does not further the relevant objectives and should

Respondent	Response	Rationale
		be rejected. We also draw attention to the P282 Workgroup's Assessment Consultation comments in respect of Ofgem's Electricity Balancing SCR: *"P282 will impact areas that could be considered by the [Electricity Balancing] SCR. For example, a major benefit from P282 is for a Party to be able to consolidate their Credited Energy Volumes into one Energy Account, but this benefit only arises because there are two cash-out prices. One proposal under the [Electricity Balancing] SCR is to introduce a single cash-out price, which would nullify this benefit."* We strongly believe that Ofgem's Electricity Balancing SCR is the right place to consider the concepts proposed in P282, and that approval of P282 now, with the SCR ongoing, would be inappropriate. Even if (contrary to the Panel's majority view) P282 is deemed to benefit the relevant objectives as GB's electricity balancing rules currently stand, it could well prove to be a waste of resources in a post SCR context. P282 is likely to entail significant system and process costs, but the "benefits" could be extremely short lived if SCR reforms are implemented shortly after the proposed implementation of P282. Our views on P282's performance against the relevant objectives, regardless of the SCR interaction, are as follows: We believe that the relevant objective is primarily objective c), promoting effective competition in the generation and supply of electricity. We also believe P282 has some relevance to objective d), promoting efficiency in the implementation of the balancing and settlement arrangements. If objective c) is to be furthered, we believe that an overall enduring benefit to BSC parties, which at least outweighs P282's implementation cost, needs to be demonstrable. P282 offers no such benefit. Any P282 net benefits (typically, where reductions in party imbalance costs outweigh reductions in RCRC receipts) that accrue to "winning" parties will be equally offset by net losses to "losing" parties (reduction in RCRC receipts outweigh reduction in imbalance costs). P282's "benefits" are in practice a zero sum game, but P282's implementation costs are clearly a negative – meaning a net cost to BSC parties overall.

Respondent	Response	Rationale
		We agree with the P282 Workgroup's detailed assessment, which clearly demonstrates that P282 would only redistribute costs among BSC parties, and would not actually reduce them (p4-6 of detailed assessment). We also note the workgroup's observation, echoed in the Panel's draft modification report, on winners and losers of P282 (p19 of assessment consultation): *"Other things being equal, the net benefit [of P282] is positive for 'bad balancers'.... and negative for 'good balancers'."* We do not believe that a modification proposal which rewards bad balancers at the expense of good balancers can be said to facilitate effective competition. Good balancing in the GB electricity market is eminently desirable and should be encouraged – P282 does the opposite. Finally, we note that P282 may have some relevance to objective d), as it could be considered as giving parties greater discretion about how they manage their imbalances. However, we believe this benefit to be very marginal in the context of the system and process costs parties would have to incur and the more important objective c) considerations set out above.
GDF SUEZ Energy UK-Europe	No	As explained in our previous consultation response, we agreed that the arguments for and against this modification proposal are finely balanced, but that we felt the arguments were marginally in favour of the proposal. This view has not changed, but we can understand how the Panel can reasonably come to the other view.
SmartestEnergy	No	We believe P282 should be approved for the following reasons: • We believe that this proposal will reduce a barrier to entry and increase competition (BSC Objective c) as removing the artificial divide in the market means that parties do not have to make a decision between both sides and would have greater flexibility in expanding and managing imbalance risk. • A concern has been raised that P282 may reduce the incentive for Parties to go long (/be less long overall due to effectively having one account) which could reduce the level of 'free' reserve available to the System Operator. We

Respondent	Response	Rationale
		would point out that it should not be assumed that parties being longer are good for balancing the system as the excess energy could be generated in the wrong location and therefore turned off due to constraints for instance and not contribute to useable reserve. • P282 should make it less risky for parties to contract with renewable electricity generation (as the imbalance exposure would be slightly reduced) and hence facilitate its integration as generators would have a route to market.
Statkraft Markets GmbH	No	We do not agree with the Panel's initial recommendation that the proposal should not be approved and are surprised and disappointed at the Panel's position, which goes against the view of the working group. We do not consider the arguments raised by Panel Members against the proposal are valid reasons to recommend rejection of what would be a valuable additional facility for Parties to manage their imbalances. We hope the Panel will reconsider its view and, in reaching its final view, recommend implementation. The Panel Members who considered that P282 does not better facilitate the applicable objectives believe, according to the draft modification report,, the proposal would reduce Parties' incentive to balance their positions in line with their Physical Notifications (PNs). It would reward those Parties that are less good at balancing their positions and lead to uncertainty for the System Operator in balancing the system. The first part of this argument suggests that Parties may take less rigorous action to balance their positions, knowing that any opposing imbalances would be offset at no cost to them, but they would be "rewarded" for it. It assumes, wrongly we believe, that the current arrangements provide the correct, or at least better, incentives than those under P282. It also assumes that changes in Parties behaviour can be predicted with any confidence, and it is apparent from the workgroup analysis and discussion that this is not the case. In the current arrangements small Parties may struggle to balance their positions, particularly if they are without the benefit of a portfolio of generation/ demand. The impacts of exposure to the imbalance price tend to encourage Parties to "go long" to avoid

Respondent	Response	Rationale
		the System Buy Price. The proposal, by enabling Parties to combine their volumes into a single Energy Account, will provide a means for them to able to go less long and so better balance their positions. By more effectively managing their risk Parties will be able to compete more effectively. There are clearly benefits arising from the change for Parties who currently have an exposure in both Production and Consumption accounts in terms of reductions in their exposure to imbalance charges and who would no longer have to employ ECVNs to try and achieve the same effect. This is not a "reward" for certain types of Parties, but rather reflects that the current MVRN restriction constrains the ability of smaller Parties, particularly those which have both production and consumption, to manage their positions as effectively as they might if the restriction did not exist. The key argument for this proposal is that the change will create better conditions for competition in principle by creating additional flexibility and also levelling the playing field relative to the position already enjoyed by embedded generation. The main benefits are in relation to objective (c) in respect of promoting effective competition in the generation and supply of electricity. The proposal will provide more flexibility for smaller Parties, particularly those that have both production and consumption, and it should enable Parties to better balance their positions. The proposal would also increase the opportunities for participants engaged in only one side of the market. It would also reduce the level of complexity and the cost of compliance and so remove a barrier to market entry. We would also note that the proposal is facilitative: it does not require Parties to use MVRNs and they would still have the option of trading out of both Energy Accounts as currently. The other main argument relates to the impact and costs on the System Operator of the change. National Grid itself considers P282 may reduce the incentive for Parties to go long and this could reduce the level of "free" reserve available to the System Operator, requiring it to procure more reserve and so increasing balancing costs. It considers with lower margins and the growth in renewable generation, this generation's negatively priced bids could impact the main

Respondent	Response	Rationale
		imbalance price, and that a less long system may see SBP and not SSP the main price. We note the workgroup was divided on this issue, with some agreeing with National Grid that P282 may have a negative impact on its ability to manage the system and others believing that any increase in self-balancing is a positive thing as it will allow Parties to take positions that are closer to reality. Our view is that concerns about the impact and costs on the System Operator do not provide good grounds to reject this proposal. Firstly we doubt the proposal is likely to have any material impact on balancing, although it may have a small impact on reducing the net imbalance volume. We note the workgroup was also unconvinced that P282 would have any significant effects on incentives to balance. With the current growth in intermittent generation both in the hi-voltage (P-account) and in the low-voltage (C-account) grid, it would benefit the SO if the market participants with a portfolio consisting of generation in both P and C- account, would balance the portfolio as a whole. Due to the intermittent nature of wind, it is currently to be expected that sudden deviation in actual output compared to forecasted output will lead to an overly cautious or aggressive behaviour of market participants with a generation portfolio to balance the respective portfolios for the coming periods. If the output then returns to forecasted levels it is likely that the adjusted position leads to higher imbalances since an explicit margin has been built into two portfolios compared to one single portfolio for which a market participant would assume increased portfolio effects. However, if the change does result in a reduction in the amount of "free" reserve to the SO, we would regard this as a positive development because it would imply that some Parties are better able to balance their positions and are no longer providing this reserve to the SO which is a cost to themselves of trying to avoid imbalance charges. This would aid the efficient, economic and coordinated operation of the transmission system, as set out in relevant objective b). It is overall not clear what are the precise nature and timeframe for any of these impacts and therefore the impact on system operation, in part because the proposal is a facilitative one and offers new options

Respondent	Response	Rationale
		rather than a prescribed method. However it is key to note the proposal is consistent with the view that self-balancing has the potential for more efficient operation of the transmission system by giving Parties the facility to self balance. It is also consistent with the concept of the residual balancer which is responsible for the actions that the market cannot take on its own and is incentivised to efficiently manage these. In that light we believe the principles which underlie the proposal which seek to facilitate choice and creating better conditions for competition should be a key consideration in determining a decision to recommend this proposal. The proposal would also have benefits in reducing the level of complexity and the cost of compliance and so remove a barrier to market entry. We also agree with the majority of the working group and the majority of respondents to the consultation in being unconvinced that the proposal would have any material impact on liquidity.
EDF Energy	No	We support P282, and believe it better meets BSC objectives, as described in our response to assessment consultation. Key points are summarised here. The requirement to balance Production activity separately from Consumption activity serves to withhold natural consolidation benefits from vertically integrated companies and distribute them to all parties, including those that are not vertically integrated. We think this was originally designed into the NETA arrangements because of a belief that large vertically integrated companies would have a significant advantage over single-activity new entrants, thereby deterring new entry in the separate activities. In practice, the workgroup analysis and our own analysis indicates that measured on a per MWh basis, large vertically integrated companies can balance relatively well on both accounts and are relatively neutral to the redistribution created by having two accounts. In practice, new entry has consisted of companies active in generation, or supply, or both, and the impacts of requiring separate balancing affect these companies relatively more than the largest

Respondent	Response	Rationale
		companies. The main impact appears to be to penalise smaller vertically integrated groups and aid the smaller companies that are not vertically integrated. We think the market is sufficiently mature, and the benefits of consolidation sufficiently small, that removing this distortion, releasing the natural benefit to those that have it, should help competition (BSC objective (c)), simplify the process and reduce notification risk (BSC objectives (c) and (d)), and allow the natural benefits to be passed to consumers or to encourage more investment. We don't think balancing behaviours would significantly change. We don't think BSC objective (b) concerning efficient operation should be detrimentally affected overall: • It has been suggested that the slight reduction in imbalance risk for some vertically integrated parties might cause them to take a less long position overall, reducing the "free" reserve available to the System Operator. But generation purchased unnecessarily by participants is not free, and the savings to participants could outweigh any additional costs for the System Operator. Net savings for competing participants should lead to price reductions for consumers. • Any party that does not comply with Grid Code obligations that seek to prevent self-despatch and self-balancing after gate closure can be subject to challenge and investigation by the System Operator, and ultimately penalties for breach of licence.
E.ON	No	We continue to believe that P/C accounts serve no useful purpose, and as Ofgem have acknowledged (e.g. in the first Electricity Balancing SCR stakeholder event) they are merely an artificial barrier adding complexity and cost to the industry and ultimately the consumer. We do see that in providing a solution to this P282 would be of more benefit to those parties who are less good at balancing; however, that does not justify maintaining an administrative and cost burden on all parties that can also stifle self-balancing in the run-up to Gate Closure. We acknowledge that moving to a single account, which we would support, is being considered in the SCR, where this option could also be further examined. However instead of

Respondent	Response	Rationale
		delaying this solution while a move to a single account is considered in the SCR, P282 could provide an interim/more practical solution, particularly if a decision can be made before 07/02/13, facilitating implementation on 07/11/13.

Question 2: Do you agree with the Panel's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment
11	1	0

Responses

Respondent	Response	Rationale
National Grid	Yes	Should the decision be made to implement P282, the proposed implementation dates are acceptable.
Eggborough Power Limited	Yes	EPL agrees with the timing, but would note the implementation dates may become undeliverable if the EMR proposals require system changes at the same time and cannot be accommodated in parallel.
RWE Supply & Trading GmbH	Yes	-
Drax Power Limited	Yes	Yes, when considering P282 in isolation. It appears that the implementation dates suggested minimise the cost of implementation. As such we agree with the Panel's recommendation. However, Ofgem will need to give thought to implementation when considering interactions with the Electricity Balancing SCR. For example, implementing P282 at the same time as indicating a preference for implementing single trading accounts is likely to result in inefficient use of industry resource.
TMA Data Management Ltd	Yes	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
Centrica	No	We consider that the proposed implementation dates are feasible from a systems perspective. However, we find it difficult to recommend any implementation date given that the Electricity Balancing SCR is ongoing.
GDF SUEZ Energy UK-Europe	Yes	-

Respondent	Response	Rationale
SmartestEnergy	Yes	As this modification provides optionality and is not a change which parties have to participate in, the implementation date is not a significant concern as long as the supporting mechanisms are in place to enable it to be exercised.
Statkraft Markets GmbH	Yes	We agree the proposed dates are reasonable though we note that this would cover the longest time identified by respondents to the impact assessment (nine months).
EDF Energy	Yes	Although parties would not be obligated to use the new functionality, many or most parties would probably wish to, and those that do not could suffer competitive disadvantage. Given that this is a regulatory change and could also have an effect, albeit very small, on market prices, it seems reasonable to give sufficient notice for all or most parties to accommodate it. Implementation on 07 November 2013 or 27 February 2014, in either case with 9 months notice, would give sufficient notice for us and most parties to implement changes to use the proposal if desired.
E.ON	Yes	-

Question 3: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P282?

Summary

Yes	No	Neutral/No Comment	Other
11	0	0	1

Responses

Respondent	Response	Rationale
National Grid	Yes	Should the decision be made to implement P282, we agree that the redlined changes to the BSC deliver the intention of P282.
Eggborough Power Limited	Yes	-
RWE Supply & Trading GmbH	Yes	-
Drax Power Limited	Yes	We believe it does.
TMA Data Management Ltd	Yes	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
Centrica	Yes	-
GDF SUEZ Energy UK-Europe	Yes	The error in the legal text that we pointed out in the previous consultation has been corrected
SmartestEnergy	Yes	-
Statkraft Markets GmbH	Yes	We consider that the changes would implement the intent of the proposal.
EDF Energy	Not Quite	We have not undertaken a formal legal review. From an informal review, the draft legal text appears to deliver most of the intent of the worked-up proposal. However: The definitions of QMFRziaj and QMPRziaj at Annex X-2 refer to amounts "to be allocated to the corresponding relevant Energy Account a, of a Contract Trading Party other than the Lead Party from the Energy Account of the Lead Party to which the associated Metered Volume Reallocation

Respondent	Response	Rationale
		Notification z, refers.” The definition for QMFR includes a superfluous comma after “Energy Account a” (which is not included in the definition of QMPR). More importantly, the qualifier “other than the Lead Party” in both definitions appears to prohibit notification between accounts of the same party, contrary to the proposal.
E.ON	Yes	-

Question 4: Do you have any further comments on P282?

Summary

Yes	No
5	7

Responses

Respondent	Response	Comments
National Grid	No	-
Eggborough Power Limited	No	-
RWE Supply & Trading GmbH	No	-
Drax Power Limited	Yes	We would also like to note the interactions between P282 and the Electricity Balancing SCR. The SCR is considering other options (such as single trading accounts, single cash out pricing, etc.) which would result in similar consequences to those resulting from the implementation of P282. This is primarily allowing parties operating on both sides of the market to 'net off' their opposing imbalances i.e. avoid the SBP-SSP spread. Therefore, if Ofgem is minded to allow parties to net off opposing imbalances as part of the Electricity Balancing SCR, we believe that the most pragmatic solution would be to implement P282. We believe this for the following reasons: 1) P282 is not a mandatory change. Those parties that do not wish to adopt the solution do not have to, i.e. they can continue to operate separate production and consumption accounts. 2) It is the least intrusive change, which indicates that the costs associated with the solution are likely to be lower than introducing single trading accounts. Conversely, we consider implementing compulsory single trading accounts, single cash out pricing etc. to be more intrusive and entail higher implementation/system costs. However, we believe that to ensure that SO costs do not unnecessarily increase (as discussed above) there will be a need to implement an Information Imbalance charge. An Information Imbalance charge would incentivise parties to produce/consume at the level their FPNs indicate. This will reduce the

Respondent	Response	Comments
		expected PN volatility that would increase risks, and thus costs, for the SO.
TMA Data Management Ltd	No	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	While we understand the concern that National Grid has expressed over the increase in the number of PNs in the run up to Gate Closure, and their ability to react to change quickly enough, the fact remains that the current arrangements place no limit on the number of pre-Gate Closure PNs that Generators can submit. Generators are obliged to reflect changes in expected output right up to Gate Closure. If there is a limit to the amount of variation National Grid can cope with then that should be addressed in other ways – National Grid could bring forward Modifications to address this within the Codes rather than relying upon system inefficiencies to provide them with an artificially elongated Gate Closure. The fact that Parties are better balanced, rather than just going long must mean that there will be less balancing actions taken by the System Operator. We certainly do not agree with the assertion made during the workgroup deliberations which is now seemingly to be regarded as fact, that a Party's account position is directly linked to its ability to forecast and balance. Absolutely **NO** evidence has been presented which supports this assertion. There are a number of commercial reasons for a Party to adopt a hedge strategy that sees them consistently long on both accounts, as this is a perfectly legitimate risk management strategy to ensure a degree of exposure management at an acceptable cost. Nowhere has it been demonstrated that this is behaviour that ought to be corrected. Indeed, this type of activity effectively provides National Grid with a free service (free to National Grid, not to the Party) in the form of a reserve volume that might otherwise have to contract for, reducing BSUoS costs for users. With this Modification, while this free service would likely disappear, the effect would be to more closely target balancing costs at those Parties which have actually caused the energy imbalance in the first place. We also believe that this modification goes some way towards resolving the perceived SSP/SBP spread issue in the cash out arrangements.

Respondent	Response	Comments
Centrica	No	-
GDF SUEZ Energy UK-Europe	No	-
SmartestEnergy	Yes	The SCR currently underway is looking at implementing single trading accounts. If this is the preference then we believe P282 is the most efficient way to progress this change as it would have minimal impact on existing processes and systems but not preclude future changes. In addition, maintaining the two accounts (rather than changing to single accounts) whilst allowing MVRNs between them could potentially aid transparency for monitoring or restriction purposes if Ofgem decide to intervene as part of the retail market review.
Statkraft Markets GmbH	Yes	Ofgem is currently undertaking a Significant Code Review of electricity balancing arrangements which may impact on P282 if implemented. However, the outcomes of the SCR are not yet known and the timescales for implementation uncertain. In this light, and particularly as the proposal's intent is to provide Parties with additional options on how to trade rather than mandating one course of action, we believe the proposal should be implemented.
EDF Energy	Yes	Please see our response to Assessment Consultation, beyond which we have no further comments.
E.ON	No	-