

20 November 2001

MODIFICATION REPORT
MODIFICATION PROPOSAL P27 –
Amendmenet to the Derivation of
Imbalance Prices

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

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1 SUMMARY AND RECOMMENDATIONS

1.1 Recommendation

On the basis of the analysis, consultation and assessment undertaken in respect of this Modification Proposal during the Assessment Phase, and the resultant findings of this report, the BSC Panel recommends to the Authority that the Proposed Modification should be rejected.

1.2 Background

Modification Proposal P27 was submitted by Electricity Direct on 26 June 2001, proposing the BSC be modified to amend the derivation of imbalance prices. It was argued by the proposer that the imbalance prices did not reflect costs imposed on the System, which had the effect of impairing development of spot markets for electricity. Thus, it was argued, the Proposed Modification, if made, would better promote effective competition in the sale and purchase of electricity.

An Initial Written Assessment was considered by the BSC Panel on 23 July. The Panel directed that the Proposal should proceed straight to the Assessment Phase, to be considered by the Pricing Issues Modification Group.

The Modification Group held meetings on 21 August 2001, 27 September 2001 and 5 October 2001, with an Assessment Report being presented to the Panel on 18 October 2001. The Modification Group concluded that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objective of *“promoting effective competition in the generation and supply, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity”*. However, the Modification Group also concluded that the Proposed Modification would impair the achievement of the Applicable BSC Objective of *“efficient, economic and co-ordinated operation ... of the Transmission System”*. The Modification Group was unable to conclude which effect would outweigh the other, and hence was unable to conclude whether the Proposed Modification would, overall, better facilitate the achievement of the Applicable BSC Objectives.

There was a view expressed within the Modifications Group that an Alternative Modification would be desirable. However, no proposal for an Alternative Modification was identified which received support from members of the Modification Group.

A draft of this Modification Report was consulted upon and considered, along with the consultation responses, by the BSC Panel on 15 November 2001. The Panel approved the draft of the report.

1.3 Rationale for Recommendations

The Panel recommended that the Modification is rejected on the grounds that, whilst there it felt that there was some merit in addressing the issues that the Modification sought to address, it had not been established that the particular Modification would better facilitate the achievement of the Applicable BSC Objectives.

2 INTRODUCTION

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

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

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

3 PURPOSE AND SCOPE OF THE REPORT

BSC Section F sets out the procedures for progressing proposals to amend the BSC (known as ‘Modification Proposals’. These include procedures for proposing, consulting on, developing, evaluating and reporting to the Authority on potential modifications.

The BSC Panel is charged with supervising and implementing the modification procedures. ELEXON provides the secretariat and other advice, support and resource required by the Panel for this purpose. In addition, if a modification to the Code is approved or directed by the Authority, ELEXON is responsible for overseeing the implementation of that amendment (including any consequential changes to systems, procedures and documentation).

A Modification Report must be prepared and submitted to the Authority in respect of each proposed modification and must contain:

- (a) The recommendation of the Panel as to whether or not the Proposed Modification or any Alternative Modification should be made;
- (b) The proposed Implementation Date for implementation of the Proposed Modification or any Alternative Modification;
- (c) The matters set out in Annex F-1 of the BSC. This will usually be in the form of the relevant Assessment Report where the Proposal has been submitted to a Modification Group prior to the Report Phase;
- (d) An explanation of the Panel’s rationale should the Panel form a different view of any matters contained in the Modification Group Report; and
- (e) A summary of the representations made by Parties and interested third parties during the consultation undertaken in respect of the Proposed Modification and any Alternative Modification.

4 DESCRIPTION OF PROPOSED MODIFICATION

Modification Proposal P27 proposes an amendment to the derivation of System Buy Price and System Sell Price. It suggests that:

- (1) when the System is long, the calculation of System Sell Price should be unchanged, but the System Buy Price should be derived as the System Sell Price plus an offset; whilst
- (2) when the System is short, the calculation of System Buy Price should be unchanged, but the System Sell Price should be derived as the System Buy Price less an offset.

The offset price is derived by:

- (i) in case (1), spreading the aggregate cost of accepting Offers relative to the cost of buying that energy in the forwards markets across the total of short (i.e. negative) Account Energy Imbalance Volumes; and
- (ii) in case (2), spreading the aggregate cost of accepting Bids relative to selling that energy in the forwards market across the total of long (i.e. positive) Account Energy Imbalance Volumes.

The Proposal thus derives the imbalance price for energy imbalances that oppose the overall imbalance of the system by allocating the cost of balancing actions that oppose the net direction of balancing actions over those opposing energy imbalance volumes.

The Modification Proposal requires that the cost of buying or selling energy in the forwards markets is determined by reference to a “Market Price”. This is a measure of the price of energy in publicly traded markets using a source designated by the Panel to be used for this purpose.

5 HISTORY OF PROPOSED MODIFICATION

The Proposal was submitted by Electricity Direct on 26 June 2001.

An Initial Written Assessment was considered by the BSC Panel on 26 July 2001. The Panel decided that the Proposal should proceed to the Assessment Phase. During the Assessment Phase, Pricing Issues Modifications Group meetings took place on 21 August 2001, 27 September 2001 and 5 October 2001. A consultation on the Initial Written Assessment was issued 20 July. Nine responses were received, which were considered by the Modifications Group during the Assessment.

The Modification Group concluded that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objective in Condition 7A(ii)(c), namely *“promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity”*. However, the Group concluded also that the Proposed Modification would impair the achievement of the Applicable BSC Objective in Condition 7A(ii)(c), namely *“the efficient, economic and co-ordinated operation ... of the Transmission System”*. The Modification Group was unable to conclude whether the Proposed Modification would, overall, better facilitate the achievement of the Applicable BSC Objective. Hence, in accordance with F2.4.14 of the BSC, the Assessment Report instead included a summary of the views of the members of the Modification Group.

There was a view expressed within the Modifications Group that an Alternative Modification would be desirable. However, no proposal for an Alternative Modification was identified which received support from members of the Modification Group.

The Assessment Report was considered by the BSC Panel on 18 October 2001. The Panel discussed whether there would be merit in referring the Modification Proposal back to the Modification Group for further analysis. However, the period of three months permitted by the Code for the Assessment Phase had elapsed, and the representative of the Authority indicated that it would not look with approval on any extension. Accordingly, the Panel accepted the recommendations of the Modification Group that the Proposed Modification should proceed to the Report Phase. The Panel noted the views of the Modifications Group and agreed that it should recommend that the Proposed Modification should be rejected.

Following the Panel meeting, a draft Modifications report was prepared and consulted upon, and the draft Modification Report updated. This draft was then considered by the BSC Panel at its meeting on 15 November 2001, which approved the draft report.

6 ASSESSMENT

During the Assessment Phase, the Modification Group considered a number of issues and the effect that these would have on achievement of the Applicable BSC Objectives. A complete report of the Assessment Phase can be found on the ELEXON website, www.elexon.co.uk.

6.1 Market Efficiency

A number of aspects were discussed regarding the ability of the Proposed Modification in better, *“promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity”*.

6.1.1 Imbalance Price Spreads

In the Proposed Modification, according to whether the market, i.e. the aggregate of all Trading Parties' Account Energy Imbalance Volumes, is long or short, either the SSP or SBP, respectively, would be calculated in the same manner as now. The 'other' price, i.e. respectively either SBP or the SSP, would be equal to the 'main' price modified by the Reverse Flow Unit Offset Price (RUOP). The Group agreed that the effect of the Proposed Modification consequently would be to reduce the spread between SBP and SSP.

With a lower spread, the Proposer argued that the Proposed Modification would make it easier for Trading Parties to contract to match their physical exposures, whether by writing financial derivative contracts¹ or by notifying physical contracts. The Modification Group agreed, and noted that this greater ability to contract could increase the efficiency of the market. The Proposer also argued, and the Modification Group did not disagree, that this improvement would be particularly important for smaller players who currently have a disproportionate problem – at least in the absence of fully-developed consolidation services - in managing imbalance risk. To the extent that there were economies of scale in electricity supply, generation of trading, the Proposed Modification would thus also remove the barrier which is created by the increased costs incurred by a new entrant until it achieves those economies of scale.

6.1.2 Incentive to Balance

The Group recognised that presently the trading arrangements, and the resulting prices, give an incentive for the market to “go long”. Due to the uncertainty of physical demand, and the greater consequences of being exposed to System Buy Price compared with System Sell Price, Suppliers will tend to buy greater contract volumes than their unbiased expectation of their demand. Generators will be willing to sell these greater volumes of contracts, but will intend - making physical notifications accordingly - to generate these greater volumes so as not to go short. Thus, the System Operator typically has to accept Bids in order to balance the System.

A view was that the Proposed Modification would reduce the incentive to go long, because the consequences of being short (and thus exposed to SBP) in a long market would be less severe. Whether a Party was to be exposed to SSP or SBP would now be dependent on whether the market overall were long or short, and hence the best strategy would be to avoid imbalance in either direction. Another view was that, to the extent that SBP and SSP can be forecast now, the incentive would be to estimate the probabilities that the market would be either long or short. Trading Parties would then compare the expected price to the price in forward markets.

¹ E.g. contracts for differences.

Thus, the Modification Group concluded that simple arbitrage would then dictate that Trading Parties would go as long as possible or as short as possible, until the arbitrage opportunity had been closed. Elimination of the bias of the market to go long, the Group believed would result in more efficient prices.

6.1.3 Linkage between markets

The arbitrage effect described in the previous section would increase the demand or supply of contracts in the short-term forward markets until the market price was equal to the expectation of SBP and SSP. The Group noted that this would create more ‘linkage’ between the forward markets and imbalance prices, which may increase market efficiency.

6.2 Effect on System Operation

The Group agreed, by the reasoning given in Section 6.1.2, that the Proposed Modification would reduce the incentives on Trading Parties to self-balance their own portfolio, but that it would increase the incentive to self-balance against the whole market. Accordingly, the Modification Group agreed that the Proposed Modification could impair *“the efficient, economic and co-ordinated operation ... of the ... Transmission System”*. However, the Modification Group was unable to reach a consensus on whether this effect would be material, and sufficient to outweigh any market efficiency benefit.

The Transmission Company stated that a possible result of this Proposed Modification could be to reduce the incentive on Trading Parties to contract, which could increase the number of balancing actions, potentially impairing the *“the efficient, economic and co-ordinated operation ... of the ... Transmission System”*. However, the Modifications Group, again, was unable to reach a consensus on whether this effect would be material.

6.3 Timing of Imbalance Price Publication

The Group identified that the Proposed Modification had an effect on the timing with which imbalance prices could be determined and published. As originally envisaged in the New Electricity Trading Arrangements, imbalance prices should be available on the Balancing Mechanism Reporting System within 15 minutes of the end of the Settlement Period, although certain modifications, such as P18A, “Removing the Effect of System Balancing Actions”, have compromised the ability to do this, particularly using the interim implementation from 25 September 2001. Although the Reverse Flow Imbalance Cost, could be determined shortly after the Settlement Period, provided that Balancing Services Adjustment Data (BSAD) and Market Price were available, the Reverse-Flow Unit Offset Price could not be determined finally until all of the imbalances on all of the Trading Parties’ accounts had been established.

The Transmission Company confirmed that it was working towards providing BSAD data half-hourly at Gate Closure by 1 April 2002². The availability of Market Price data in real-time would depend on what source or sources of data were designated for the purposes of establishing the Market Price. However, it was understood that it is possible for exchanges to provide a reference price in timescales comparable to Gate Closure.

However:

- (i) it was noted by the Modification Group that the Initial System Sell Price and the Initial System Buy Price would continue to be available in the same timescales as now. In addition, whether

² Ref. Table 4, NGC Procurement Guidelines, V1.1, 21 September 2001.

the market was long or short could also be known in real-time, and hence whether the two imbalance prices were close to Initial System Sell Price or Initial System Buy Price could also be determined.

- (ii) it was argued that uncertainty for Trading Parties over the Reverse Flow Unit Offset Price would be no greater than the uncertainty associated with the Residual Cashflow Reallocation Cashflow. A counter-argument was that this argument was dependent on the relative sizes of Reverse Flow Imbalance Cost and Total System Residual Cashflow and the corresponding bases over which the costs were spread, i.e. the total volume of Accepted Offers and Bids, or the total Credited Energy Volumes³.

Given that the exact Reverse Flow Unit Offset Price could not be known in the timescales required for display on the BMRA, and, if the uncertainty associated with it were indeed small, then an implementation option identified by the Modification Group of *not* calculating and displaying data on the BMRA appeared to be feasible.

6.4 Price Volatility

A further observation was that the Proposal may increase the volatility of imbalance prices. Though the spread between System Buy Price and System Sell Price would be likely to be reduced by the Proposal, whether the two imbalance prices were close to the existing System Buy Price or to the existing System Sell Price would depend, from Settlement Period to Settlement Period, on the whether the System were deemed to have been long or short. Thus the volatility of System Buy Price and System Sell Price would each increase.

However, it was noted that a Trading Party seeking to maintain a balancing position was already subject to such volatility. This was not so much as a result of volatility in the individual prices, but as a result of uncertainty over *which* price the Trading Party would be exposed to.

6.5 Modification Group Conclusions

Thus it was concluded that the Proposed Modification would better facilitate the achievement of the Applicable BSC Objective of, *“promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity”*. Concerns about the effect on the timing of imbalance price publication and on the volatility of imbalance prices were considered by the Modification Group to be misplaced.

The Modification Group also concluded that the Proposed Modification could impair the *“the efficient, economic and co-ordinated operation ... of the ... Transmission System”*.

However, the Modification Group was unable to conclude which effect would outweigh the other, and hence was unable to conclude whether the Proposed Modification would, overall, better facilitate the achievement of the Applicable BSC Objectives.

³ To be precise, Credited Energy Volumes summed over all BM Units in delivering Trading Units minus Credited Energy Volumes summed over all BM Units in off-taking Trading Units.

7 RATIONALE FOR PANEL RECOMMENDATIONS

The Panel noted that the Modification Group did not reach a unanimous conclusion as to whether the Proposed Modification would better facilitate the achievement of the Applicable BSC Objectives. The Panel also noted that the period of three months Assessment Phase permitted by the Code for the Assessment Phase had elapsed, and the representative of the Authority had indicated that it would not look with approval on any extension. Thus the Panel decided that the Modification Proposal should proceed to the Report Phase.

The Panel decided to recommend to the Authority that the Modification is rejected on the grounds that, whilst there was some merit in addressing the issues addressed by the Modification, it had not been established that the particular Modification would better facilitate the achievement of the Applicable BSC Objectives.

8 LEGAL TEXT TO GIVE EFFECT TO THE PROPOSED MODIFICATION

In view of the recommendation of the Panel to recommend to the Authority that the Modification should not be made, the Panel has consulted with the Authority, and the Authority has agreed that, at this stage, proposed text to modify the Code need not be included in the Modification Report.

9 SUMMARY OF REPRESENTATIONS

Eight responses were received to the consultation on the draft Modification Report, and can be found in Annex 1. Seven responses supported the Panel's decision to recommend to the Authority that the Modification should not be made. One response disagreed with the decision.

Of the responses supporting the Panel decision, two cited the reduction in the incentive to balance, whilst four respondents believed that, whilst there was merit in Modifications regarding the calculation of imbalance prices, a more systematic approach was required to the identification of suitable Proposals. One respondent expressed concern regarding any delay to the publication of imbalance prices.

The respondent disagreeing with the Panel decision felt that the issues had not been fully explored and were disappointed that the Assessment Phase had not been extended. The respondent disagreed with the Transmission Company's view that the number of balancing actions would be likely to increase under the Proposed Modification, which the Transmission Company believed could jeopardise the efficient, economic and co-ordinated operation of the Transmission System. The respondent also commented on a drafting error in the draft Modification Report, as circulated for consultation (this has been rectified in the report).

ANNEX 1 – REPRESENTATIONS

Responses from P27 Modification Report Consultation

Representations were received from the following parties:

No	Company	File Number
1.	Powergen	P27_MR_001
2.	SEEBOARD	P27_MR_002
3.	TXU Europe Energy Trading Ltd	P27_MR_003
4.	ScottishPower UK Plc	P27_MR_004
5.	British Gas Trading	P27_MR_005
6.	London Electricity plc	P27_MR_006
7.	Electricity Direct	P27_MR_007
8.	British Energy	P27_MR_008

P27_MR_001 – Powergen

I am responding to the consultation on the draft Modification Report for P27. This response is made on behalf of the following BSC Parties: Powergen UK plc, Powergen Retail Limited, Diamond Power Generation Limited, and Cottam Development Centre Limited.

Powergen agrees with the conclusion of the report that P27 should be rejected. In our view the proposal would be detrimental to the BSC objectives to promote competition and efficiency in the balancing arrangements, as it would reduce the incentive for Parties to balance.

Yours sincerely,
Paul Jones
Strategy and Regulation

P27_MR_002 – SEEBOARD

With respect to the above mentioned modification proposal, entitled "Amendment to the Derivation of Imbalance Prices". We agree with recommendations in modification report dated 29th October 2001 that this modifications proposal should not be made.

Dave Morton
SEEBOARD
0190 328 3465

P27_MR_003 – TXU Europe Energy Trading Ltd

Thank you for the opportunity to respond to the above modification report. TXU Europe Energy Trading Ltd (on behalf of all TXU Europe companies) support the recommendation that the proposed modification should be rejected.

Regards
Nicola Lea
Market Development Analyst
TXU Europe Energy Trading Ltd

P27_MR_004 – ScottishPower UK Plc

On behalf of ScottishPower UK Plc, Manweb Plc and Emerald Power Ltd. I would like to thank you for this opportunity to comment on the Draft Modification Report for P27 - Amendment to the Derivation of Imbalance Prices (Elec Direct).

We would like to reiterate our views and the reasoning behind those views, expressed in response to a previous consultation on P27, that this proposal does not meet Applicable BSC Objectives. We note that the Modification Group reached no consensus on this point and that no alternative modification was proposed.

We continue to express concern that imbalance pricing issues are being tackled on a piecemeal basis. There is merit in reviewing this whole area but, until the mechanisms are in place to undertake such a review, we would reserve judgement on any proposal raised to effect changes to imbalance pricing, treating it on its merits.

Should you wish to discuss this response further, please do not hesitate to contact me

Yours faithfully,

James Nixon

Design Authority, Deregulation Services

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(Intranet)

P27_MR_005 – British Gas Trading

Thank you for the opportunity for comment on this modification proposal. British Gas Trading (BGT) agree with the Panel's view that this modification should be rejected. The modification proposal fails to better facilitate any of the Applicable BSC Objectives.

Under the current imbalance price regime there is an incentive on Parties is to maintain a long position in order to avoid the overly penal SBP cashout. However, whilst recognising this issue we do not believe this modification would be the most appropriate solution to the problem. The solution will create a perverse incentive on Parties to attempt to estimate the overall market imbalance and move in the opposite direction than balance their position. This behaviour will not necessarily make the market more efficient, despite reducing the propensity for the market to go long, as it increases the need for the Transmission Company to take balancing actions.

It has been suggested that introduction of this modification would cause some delay in price reporting. This is unacceptable. The industry is already facing considerable delay in reporting of prices since the implementation of Modification Proposal 18A. It is important for Parties to be able to see prices as close to real time as practicable as these will provide the basis for commercial decisions. Furthermore, as P18A has only been active for the last month, the impact of this change is only just beginning to be seen. As such we would encourage a moratorium on the introduction of any further changes to the imbalance prices pending the forthcoming review of P18A.

Yours faithfully
Danielle Lane
Transportation Analyst

P27_MR_006 – London Electricity plc

Our response to the Mod 27 Modification Report is as follows. We would like to see a wider review of the imbalance cash-out calculation process (including the effect of NGC's incentives scheme). We believe that the review should include a look at alternative means of calculation of imbalance cash-out prices. One means of addressing a deficiency of the current asymmetric cash-out prices (whereby participants tend to consistently “go long”) would be to generate symmetric cash-out prices by way of a pair of equal offsets either side of a reference price.

Modification 27 does not seem to have a firm economic rationale behind its complex imbalance price formulation. There needs to be a thorough analysis into formulating a method of imbalance pricing which will not lead to;

- Participants consistently ‘going long’ and cash-out prices in the opposite direction to system imbalance being set on a default basis, or on a few small trades
- Default pricing rules being gameable
- Accidental imbalance being penalised excessively as compared to those imbalances which impose real costs to the system
- A large ‘beer fund’
- Competition/market development being damaged

Yours sincerely,

Liz Anderson

(London Electricity plc on behalf of itself, SWEB Ltd, Sutton Bridge Power and Jade Power Generation)

P27_MR_007 – Electricity Direct

As proposer's representative I am Responding on behalf of Electricity

Direct in order to express our disappointment with the process and to point out some inaccuracies in the report.

Our disappointment is that the Panel were not permitted to extend the Assessment Procedure. We believed that the issues were not fully debated by the Mods group. The lack of clarity in Paras 6.1 and 6.2 emphasises this.

Points of Detail - correction of inaccuracies

6.1.1 Imbalance Price Spreads

Para 2:

With a lower spread, the Proposer argued that the Proposed Modification would make it easier for Trading Parties to contract to match their physical exposures, whether by writing financial derivative contracts or by notifying physical contracts. The Modification Group agreed, and noted that this greater ability to contract could increase the efficiency of the market. The Proposer also argued, and the Modification Group did not disagree, that this improvement would be particularly important for smaller players who currently have a disproportionate problem - at least in the absence of fully developed consolidation services - in managing imbalance risk. To the extent that there were economies of scale in electricity supply, generation of trading, the Proposed Modification would thus also create a barrier to entry by increasing the costs until a new entrant can achieve that economy of scale.

In the second to last sentence - we did not mention consolidators and we do not believe they were mentioned by the group.

The last sentence - the meaning has been inverted. Given that the present price structure is massively disadvantageous to new entrants reducing the price spread will help them.

Reworded Para:

With a lower spread, the Proposer argued that the Proposed Modification would make it easier for Trading Parties to contract to match their physical exposures, whether by writing financial derivative contracts or by notifying physical contracts. The Modification Group agreed, and noted that this greater ability to contract could increase the efficiency of the market. The Proposer also argued, and the Modification Group did not disagree, that this improvement would be particularly important for smaller players who currently have a disproportionate problem in managing imbalance risk. To the extent that there were economies of scale in electricity supply, generation of trading, the Proposed Modification would thus reduce the current barrier to entry by decreasing the costs until a new entrant can achieve that economy of scale.

6.2 Effect on System Operation

Para 2:

The Transmission Company stated that a possible result of this Proposed Modification could be to reduce the incentive on Trading Parties to contract, which could increase the number of balancing actions, potentially impairing the "the efficient, economic and co-ordinated operation ... of the ... Transmission System". However, the Modifications Group, again, was unable to reach a consensus on whether this effect would be material.

While we agreed that the mod would reduce the incentive to contract, we argued that it would reduce the incentive to over contract (currently 1 - 2 GW extra) and would incentivise parties to contract much closer to a balance. But leaving this aside we did not and do not agree that the number of NGC balancing actions would increase as a current 1 to 2 GW of sell will mostly disappear.

Reworded Para:

The Transmission Company stated that a possible result of this Proposed Modification could be to reduce the incentive on Trading Parties to contract, which could increase the number of balancing actions, potentially impairing the "the efficient, economic and co-ordinated operation ... of the ... Transmission System". However, the Modifications Group, again, was unable to reach a consensus on whether this was true and if so whether the effect would be material.

Regards
Maurice M Smith
Campbell Carr
Proposer's Representative.

P27_MR_008 – British Energy

BSC Modification Proposal P27 - "Amendment to the Derivation of Imbalance Prices"

British Energy does not support this modification in the form proposed. Insufficient evidence is provided to convince us that it will better meet the applicable BSC Objectives, and considerably more analysis would be necessary to demonstrate conclusively that the benefits outweigh the disadvantages. However, we acknowledge that it is targeting aspects of the imbalance calculations which may be amenable to improvement, and maintain an open mind towards the ideas behind the proposal and alternatives which may arise in future modifications or a wider review of imbalance pricing.

Martin Mate
for
British Energy Power & Energy Trading Ltd
British Energy Generation Ltd
Eggborough Power Ltd