

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

MODIFICATION P27 – AMENDMENT TO THE DERIVATION OF IMBALANCE PRICES

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

Calanais Ltd for ScottishPower & Manweb

Int - 700 2316 Ext - 0141 568 2316

<http://asg.scottishpower.plc.uk> <<http://asg.scottishpower.plc.uk/>>

(Intranet)

P27_MR_005 – British Gas Trading

Modification Proposal 27: Amendment to the Derivation of Imbalance Prices

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