

Responses P90 Assessment Consultation 2

Consultation issued 27 September 2002

Representations were received from the following parties:

| No | Company | File Number | No. Parties Represented |
|-----|--------------------------|--------------|-------------------------|
| 1. | TXU | P90_ASS2_001 | 21 |
| 2. | Entergy-Koch Trading Ltd | P90_ASS2_002 | 1 |
| 3. | British Gas Trading | P90_ASS2_003 | 1 |
| 4. | Innogy | P90_ASS2_004 | 7 |
| 5. | Edison Mission Energy | P90_ASS2_005 | 1 |
| 6. | Dynegy | P90_ASS2_006 | 1 |
| 7. | NGC | P90_ASS2_007 | 1 |
| 8. | Aquila Networks | P90_ASS2_008 | 1 |
| 9. | SEEBOARD Energy | P90_ASS2_009 | 1 |
| 10. | LE Group | P90_ASS2_010 | 7 |
| 11. | Scottish and Southern | P90_ASS2_011 | 4 |
| 12. | Powergen | P90_ASS2_012 | 4 |
| 13. | Scottish Power | P90_ASS2_013 | 5 |
| 14. | British Energy | P90_ASS_014 | 3 |

P90_ASS2_001 – TXU

Thank you for the opportunity to comment on Modification Proposal P090.

TXU Europe Energy Trading Ltd. would like to make the following comments on behalf of all TXU Europe Parties (21 BSC Parties).

TXU support the view expressed in the Second Assessment Report that neither the proposed modification, nor the alternative modification should be made at this time. We believe that further analysis is needed against the new baseline and that the issues raised during the assessment procedure should be referred to the Pricing Standing Modification Group for consideration, out of which a modification proposal may or may not arise.

Yours faithfully

Nicola Roberts

Market Development Analyst, TXU Europe Energy Trading Ltd.

P90_ASS2_002 – Energy-Koch Trading Ltd**Modification Proposal P90: Second Assessment Consultation****Responding on Behalf of (please list all BSC Parties): Energy-Koch Trading Ltd**

| Q | Question | Response (Please provide rationale where possible) |
|----|--|--|
| 1. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | <p>YES</p> <p>Rationale: The current mechanisms for energy – system differentiation are less arbitrary than the mechanism proposed by Proposed P90, and that therefore Proposed Modification P90 may decrease cost-reflectivity of the Energy Imbalance Prices.</p> |
| 2. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | <p>YES</p> <p>Rationale: Alternative Modification P90 could be considered to be implementing a better approach to the differentiation of system and energy balancing actions by removal of the Transmission Company assessment as to whether the purpose of the forward trade was for system or energy balancing</p> |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | <p>YES</p> <p>Rationale: The Alternative Modification provides benefits in terms of increased transparency, and more cost-reflective Energy Imbalance Prices but the implementation and development costs suggested by the Central Systems service provider should be reviewed as they greatly reduce the potential cost-benefit of the Alternative.</p> |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed | <p>YES</p> <p>Rationale: It provides greater clarity over NGC's actions and hence a more transparent method for determining Energy imbalance Prices.</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | P78)? | |
| 5. | Are there any further comments you would like to add, or points you would like to make? | Comments: No |

P90_ASS2_003 – British Gas Trading
Modification Proposal P90: Second Assessment Consultation**Responding on Behalf of (please list all BSC Parties): British Gas Trading Ltd**

| Q | Question | Response (Please provide rationale where possible) |
|----|--|---|
| 1. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | YES Rationale: Considering the recent implementation of Modification Proposal 78 this is the appropriate course of action. |
| 2. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | NO Rationale: |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | NO Rationale: Although we support the basis of P90 we do not agree that further changes should be made until P78 has been fully implemented and the affects assessed. |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)? | YES Rationale: |
| 5. | Are there any further comments you would | Comments: |

| Q | Question | Response (Please provide rationale where possible) |
|---|--|---|
| | like to add, or points you would like to make? | Due to the implementation of Modification Proposal 78 the baseline against which P90 was being assessed has been fundamentally altered. However we believe there is considerable merit in the concept of disaggregated BSAD and we would strongly encourage the PSMG to consider this issue in more detail. |

P90_ASS2_004 – Innogy
Modification Proposal P90: Second Assessment Consultation

Responding on Behalf of (please list all BSC Parties): Innogy plc, npower Limited, Innogy Cogen Trading Limited, Innogy Cogen Limited, npower Direct Limited, npower Northern Limited, npower Yorkshire Limited

| Q | Question | Response (Please provide rationale where possible) |
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| 6. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | <p>YES / NO</p> <p>Rationale:</p> <p>The original modification P90 is not compatible with the BSC baseline following approval of Modification P78.</p> |
| 7. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | <p>YES / NO</p> <p>Rationale:</p> <p>While we support the development of a more robust approach to the definition of system and energy balancing, the implications of disaggregated BSAD reported into the price stacks requires further evaluation and analysis in the context of approval of P78.</p> |
| 8. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | <p>YES / NO</p> <p>Rationale:</p> <p>P78 involves the reporting of net BSAD into the price stacks while P90 would require disaggregation of all NGC trades and separate reporting into the price stack. With net BSAD, NGC must make a judgement on</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | | the system/energy split, it should mean that only energy trades (by definition) are used in the setting of cash out prices while system trades help to define the direction of system balance. In this context, the effects of disaggregated BSAD in price setting when compared to net BSAD requires further thought. |
| 9. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)? | <p>YES / NO</p> <p>Rationale:</p> <p>The mechanistic tagging implied by the Alternative merely applies a net imbalance volume to determine system and energy trades. This mechanistic approach may result in system trades (e.g. for constraint management) tagged as energy trades. Further work is required to evaluate whether such system trades have any impact or whether such trades can be tagged (or flagged) prior to entry into the relevant stack and remove the need for NGC to take "judgements" to determine energy from system trades.</p> |
| 10. | Are there any further comments you would like to add, or points you would like to make? | <p>Comments:</p> <p>As noted above we support the use of disaggregated BSAD and we believe that the Pricing Standing Group should discuss this matter further.</p> |

P90_ASS2_005 – Edison Mission Energy
Modification Proposal P90: Second Assessment Consultation

Responding on Behalf of (please list all BSC Parties): First Hydro Company, Edison First Power

| Q | Question | Response (Please provide rationale where possible) |
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| 1. | The PSMG have recommended that Proposed Modification P90 be | <p>NO</p> <p>Rationale: P90 still has merit since the approach it</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | <p>rejected, for the reasons set out in this consultation document. Do you support this recommendation?</p> | <p>adopts for separating system and energy trades is consistent and does not depend on the time, relative to gate closure, that the trade is struck, its duration or the use of judgements by the Transmission Company. However, given the Authority's approval of P78, which uses a market price for the reverse price, rather than retaining the BRL as proposed by P90, we recognise that P90 original is unlikely to find approval with the Authority.</p> <p>We do however have concerns about the treatment of NGC's forward trades under P78. NGC proposes netting off forward buys and sells and calculating an average price for the net energy trades that will feed into cashout prices. The effects on cashout prices of this treatment have not been assessed. Where the TC buys and sells forward for energy reasons in a half hour but is a net forward seller, the resulting BSAD variables could lead to a negative cashout price spread if the system is overall long. The default rules will then be applied with SSP being set to SBP i.e. the market price. This does not seem appropriate as energy buy trades will not be reflected in cashout prices.</p> <p>Given the above concern. it would seem appropriate to examine the effects of P78 and P90 via scenario analysis. This might highlight other anomalies.</p> |
| 2. | <p>The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach?</p> | <p>YES</p> <p>Given a choice, we still prefer the original P90 modification. Like the original P90 mod, the Alternative still removes the need for judgements to be made on the split between system and energy trades which we believe gives more cost reflective energy prices than P78 for the main price. The same P78 reverse price will apply if P90 Alternative is approved. The Mod group spent 3 months discussing P78 and were unable to identify a suitable market price. It is not sensible or consistent to be including this feature in P90 Alternative as the mod group has in the past rejected it as part of the P78 assessment. However, now that the Authority has set a precedent on this issue, the use of a market price seems to be the most pragmatic way forward whilst still retaining the key benefits of</p> |

| Q | Question | Response (Please provide rationale where possible) |
|----|--|--|
| | | P90. |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | <p>YES</p> <p>Rationale: The consultation paper comments that the mod group thought the new P90 Alternative was too far removed from the original P90 modification. Prior to the Authority's decision to approve P78, the mod group devised a P90 Alternative (option 6) that was the same as P78 Alternative but with disaggregated BSAD. The new P90 Alternative is based on the P78 baseline which uses a different reverse price to that proposed for P78 Alternative. If option 6 was considered viable, then the new Alternative must also be viable since the only difference between the two is the reverse price. The mod is therefore not too far removed from the original baseline.</p> <p>P90 and its Alternative (post the P78 decision) treat all trades the same regardless of when they were struck. It is not linked to the timing of gate closure (which has been reduced from 3.5 hours to one hour and could change again). Under P90, if a trade is carried out by NGC 5 mins before gate closure it is treated in the same way as a BOA after gate closure. P78 would net off these forward trades and calculate an average price for these trades purely because of when they were taken relative to gate closure. It is not appropriate to treat these trades differently, they are all undertaken by NGC to balance the system. P90 removes the need for this different treatment of trades.</p> <p>The difficulty in obtaining supporting analysis should not on its own cause P90 Alternative to be rejected. The analysis for P78 was itself very limited, in part because a simplified version of P78 was used, yet this mod has been approved by the Authority.</p> |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV | <p>YES</p> <p>Rationale: Mechanistic tagging removes the need for the use of judgements and also the need for consideration of how these judgements might impact on the SO's incentive scheme.</p> <p>The time that the trade was struck should not dictate how it feeds into cashout prices. P90 Alternative</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | Tagging (Proposed P78)? | treats all trades (with the exception of short duration trades) in a consistent manner. |
| 5. | Are there any further comments you would like to add, or points you would like to make? | Comments: |

P90_ASS_006 – Dynegy
Responding on Behalf of (please list all BSC Parties): Dynegy UK Limited

| Q | Question | Response (Please provide rationale where possible) |
|----|--|---|
| 1. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | YES Rationale: |
| 2. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | YES Rationale: It better facilitates the relevant objectives. It also adds to transparency of NGC's actions which will improve efficiency in the market. |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | YES Rationale: P90 alternate still improves the efficiency by increasing transparency. |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)? | YES Rationale: It is easy to understand, which is a good thing. |
| 5. | Are there any further comments you would like to add, or points you would like to make? | Comments: |

P90_ASS2_007 – NGC

Responding on Behalf of (please list all BSC Parties): National Grid

See Section 16.3 of the Assessment Report

P90_ASS2_009 – Aquila Networks

Please find that Aquila Networks Plc response to P90 Assessment Consultation is 'No Comment'.

regards

Rachael Gardener

Deregulation Control Group & Distribution Support Office, AQUILA NETWORKS

P90_ASS2_009 – SEEBOARD Energy

Responding on Behalf of (please list all BSC Parties):

| Q | Question | Response (Please provide rationale where possible) |
|----|--|--|
| 1. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | <p>YES</p> <p>Rationale:</p> <p>We support findings of the majority of PSMG, material change in baseline effectively invalidates P90.</p> |
| 2. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | <p>No strong view.</p> <p>Rationale:</p> <p>However, we understand concerns expressed by some of PSMG that this alternative is too far removed from the new baseline to be considered an alternative. We feel that it would be appropriate to seek a steer from the Authority in this respect.</p> |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | <p>NO</p> <p>Rationale:</p> <p>As a principle no participant would disagree that greater transparency is a desirable objective. However, it is not desirable at any cost. It has not been established that the</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | | apparently high cost of de-aggregating forward trades will be outweighed by increased transparency or by more cost reflective energy prices. |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)? | <p>NO</p> <p>Rationale:</p> <p>Majority of PSMG is of the view that a mechanistic approach is more arbitrary and less cost reflective than current arrangement. We have no evidence to contradict that view.</p> |
| 5. | Are there any further comments you would like to add, or points you would like to make? | <p>Comments:</p> |

Responding on Behalf of London Electricity Group

(London Electricity plc, London Electricity Group plc Jade Power Generation Ltd Sutton Bridge Power West Burton Ltd)

| Q | Question | Response (Please provide rationale where possible) |
|----|--|---|
| 1. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | <p>Yes (reject)</p> <p>Rationale – the mechanistic approach in P90 would not better differentiate between system and energy actions because it would remove 1) CADL and 2) NGC's judgement about whether forward trades are for system or energy. Therefore more system-related acceptances would "get through" to pollute cashout prices.</p> |
| 2. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | <p>No</p> <p>The alternative has the basic disadvantages (poor system-energy discrimination) of P90 noted above.</p> <p>We note from a governance perspective that the voting members of the PSMG who attended the mods group did not recommend</p> |

| Q | Question | Response (Please provide rationale where possible) |
|----|--|---|
| | | that this alternative be put forward at all. |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | NO The mechanistic approach in P90a would not better differentiate between system and energy actions because it would remove 1) CADL and 2) NGC's judgement about whether forward trades are for system or energy |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company judgemental assessment plus "Tagging" (P78 which is the baseline - and now) | No The mechanistic approach would not better differentiate between system and energy actions because it would remove 1) CADL and 2) NGC's judgement about whether forward trades are for system or energy. We know that it would be likely to introduce system trades into the energy price calculation |
| 5. | Are there any further comments you would like to add, or points you would like to make? | Comments: We support full transparency of BSAD transactions and integration of BSAD within the BSC. That is to say, we think this transparency should be achieved through the BSC rather than the procurement guidelines. |

P90_ASS2_011 – Scottish and Southern

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

In relation to the Assessment Consultation on Modification Proposal P90 contained in your note of 27th September 2002, our comments and answers to the five questions listed are as follows:-

Q1 The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation?

Yes.

Q2 The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach?

No. On balance we believe; given the concerns that the costs associated with implementing this Modification Proposal appear to outweigh the benefits; that the Alternative Modification should not be made.

Q3 Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document?

No, for the reasons outlined in Q2 above.

Q4 With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)?

No, for the reasons outlined in Q2 above.

Q5 Are there any further comments you would like to add, or points you would like to make?

None at this time.

Regards

Garth Graham

Scottish & Southern Energy plc

P90_ASS2_012 – Powergen

Responding on Behalf of (please list all BSC Parties): Powergen UK plc, Powergen Retail Limited, Cottam Development Centre Limited & Diamond Power Generation Limited

| Q | Question | Response (Please provide rationale where possible) |
|----|--|---|
| 1. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | <p>No.</p> <p>Rationale: We believe that P90 provides a transparent, mechanistic process for setting imbalance prices which takes account of all relevant actions taken and treats them in a consistent manner.</p> <p>We do not consider that it produces a more arbitrary method of determining the split between energy and system balancing actions. For a great number of actions it is not clear which are taken for system rather than energy purposes. Indeed, they can be deemed to have been taken for both purposes. Therefore, any method to separate them can be regarded as arbitrary</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | | <p>even if they rely on human judgement.</p> <p>What P90 provides is a purely mechanistic process which does not rely on the actions of anyone who may have a commercial interest in how this split is determined. It simply represents a further extension of the main mechanism used to determine the split at present.</p> |
| 2. | <p>The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach?</p> | <p>Yes.</p> <p>Rationale: We would support the alternative modification as it provides some of the benefits of P90. However, we believe that the original better meets the relevant BSC objectives as it removes the CADL mechanism, which is no more or less arbitrary than trade tagging, but adds a layer of unnecessary complexity to the price setting mechanism.</p> |
| 3. | <p>Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document?</p> | <p>Yes.</p> <p>Rationale: However, we believe that P90 original better meets the relevant BSC objectives.</p> |
| 4. | <p>With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)?</p> | <p>Yes.</p> <p>Rationale: See answer to 1 above.</p> |
| 5. | <p>Are there any further comments you would like to add, or points you would like to make?</p> | <p>Comments: No.</p> |

P90_ASS2_013 – Scottish Power

Responding on Behalf of (please list all BSC Parties): *ScottishPower UK Plc.; ScottishPower Energy Trading Ltd.; Scottish Power Generation Ltd.; ScottishPower Energy Retail Ltd.; SP Transmission Ltd.*

| Q | Question | Response (Please provide rationale where possible) |
|----|--|--|
| 1. | The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation? | <p>YES</p> <p>Rationale: Our view in the previous consultation response was that P90 has certain aspects which may help to derive 'purer' energy prices in the way that energy and system balancing actions are treated. Specifically, the use of individual BSAD trades data is a beneficial feature of P90. However, the removal of CADL'd tagging is a flaw in the outlined approach as it leaves clear system balancing actions in the energy price calculation. Therefore, we agree that it is not appropriate to proceed with the proposed P90 modification.</p> |
| 2. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | <p>YES</p> <p>Rationale: There are certain benefits to the P90 Alternative modification which recommend themselves.</p> <p>This includes the inclusion of individual BSAD trades in the price stacks, which provides additional transparency to the derivation of prices. This transparency is important in ensuring that equivalence is maintained in terms of pre and post Gate Closure actions. It may act as an incentive to Parties to balance their positions prior to Gate Closure, encouraging greater liquidity and competitiveness in short term markets. It may also help to clearly differentiate between system and energy balancing actions and ensure more cost reflective pricing of energy balancing.</p> <p>The retention of CADL'd tagging is also a beneficial feature of P90 Alternative in the way that it removes clear system balancing actions which would otherwise 'pollute' energy imbalance prices.</p> |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to | <p>NOT WITHOUT FURTHER ANALYSIS</p> <p>Rationale: We have indicated that P90 Alternative has certain merits (see Q2). However,</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | Modification P90 set out in this consultation document? | there has not been sufficient analysis carried out on P90 Alternative to provide a definitive view as to whether it better meets the Applicable BSC Objectives as opposed to the new baseline incorporating the P78 decision. P90 Alternative may ostensibly provide a better solution but it is not clear if the modification process will allow further analysis to be carried out to confirm this. It would be appropriate, in our view, if P90 Alternative cannot be analysed further under the current process, that steps are taken to keep discussion of some of the key aspects of P90 Alternative active (see Q5 below). |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)? | <p>YES</p> <p>Rationale: There is certainly scope for further investigating this aspect of P90 Alternative. It would be beneficial to have as much transparency in respect of trades which impact upon the calculation of energy imbalance prices and to retain CADL'd tagging (see the response to Q2). Further investigation may consider whether NGC's assessment of trades has some role to play as opposed to a purely mechanistic tagging approach. NGC's contribution, through its forward trades, needs to be subject to greater transparency, and so it would be worthwhile having analysis available in this regard. We note that NGC is intending to address, through a revised set of Procurement Guidelines, the issue of greater transparency. This should not, however, be considered as a substitute for further analysis of these aspects of P90 Alternative. It is important to undertake the further analysis required.</p> |
| 5. | Are there any further comments you would like to add, or points you would like to make? | <p>Comments: Our previous response gave a cautious welcome to a P90 Alternative which retained CADL'd tagging as part of the process for calculating energy imbalance prices. We also noted our general concern that pricing issues in the BSC were being subject to piecemeal reform rather than consideration of a holistic solution providing stability for market participants. Despite the issuing of the Authority decision on P78, and</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | | <p>its creation of a new baseline, and the subsequent impact of this decision on the Assessment Phase for P90, we continue to hold to our view. Our hope would be that P90 Alternative is further analysed by extending the Assessment phase for this modification (see Q3) but the current process may not allow this. It would then seem appropriate to pass some of the issues raised during the assessment of P90, in particular the use of individual BSAD trade data in the calculation of energy imbalance prices, to the Pricing Issues Standing Modification Group for further appropriate analysis. If that is the case, referral of the issues to the PISMG would ensure that these are adequately tested against the P78 baseline, which has now been established, in order to determine whether there are improvements to be made which better meet the Applicable BSC Objectives.</p> |

P90_ASS2_014 – British Energy
Responding on Behalf of (please list all BSC Parties):

British Energy Power & Energy Trading Ltd

British Energy Generation Ltd

Eggborough Power Ltd

| Q | Question | Response (Please provide rationale where possible) |
|----|---|--|
| 1. | <p>The PSMG have recommended that Proposed Modification P90 be rejected, for the reasons set out in this consultation document. Do you support this recommendation?</p> | <p>Yes</p> <p>Rationale: 1. We believe P90 Alternative better meets the BSC Objectives. 2. We are unconvinced that trades made by NGC for holding reserve should be classified for targeted “energy” charging rather than shared “system” charging, and therefore question the Balancing Reserve Level concept. 3. There seems little point in pursuing P90 original when the Authority has made clear its policy on “reverse price”</p> |

| Q | Question | Response (Please provide rationale where possible) |
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| | | determination. |
| 2. | The PSMG have provisionally recommended an Alternative Modification to Modification Proposal P90, for the reasons set out in this consultation document. Do you support this approach? | <p>YES</p> <p>Rationale: There was significant support within the Modification Group for an alternative proposal which includes the elements of transparency and non-judgemental distinction of trades undertaken by NGC and yet is not inconsistent with the policy indicated by the Authority in its decision on P78. We believe it is reasonable and efficient in terms of process to present the alternative to the Panel even if a small majority of the group do not support it.</p> |
| 3. | Given that the baseline is Proposed Modification P78, would you recommend approval of the Alternative to Modification P90 set out in this consultation document? | <p>YES</p> <p>Rationale: British Energy supports P90 Alternative as set out in the report. We believe such an approach provides for greater transparency in the derivation of NIV and imbalance prices, and removes essentially arbitrary judgement by the Transmission Company of whether the costs of particular trades should be targeted (Energy) or shared (System) costs.</p> |
| 4. | With specific regards to Transmission Company forward trades, do you support the approach of differentiating between system and energy balancing purely by use of mechanistic tagging (Alternative P90) over the use of Transmission Company assessment plus NIV Tagging (Proposed P78)? | <p>YES</p> <p>Rationale: British Energy supports tagging via P90 Alternative which we consider will improve transparency and imbalance pricing. Transmission Company assessment/judgement to separate system and energy purchases delivers a more opaque solution and may wrongly eliminate costs from the imbalance price calculation. P90 Alternative better meets applicable BSC objective (C) compared to P78 baseline</p> |
| 5. | Are there any further comments you would like to add, or points you would like to make? | Comments: SEE BELOW |

Further Comments

1. During NETA design phase it was envisaged that participants would trade up to gate closure, and NGC would trade after gate closure in close to real time. This gave rise to a simple model with imbalance prices derived from NGC bid-offer acceptances and small adjustments for other trades representing the price of actions taken by NGC on behalf of out-of-balance parties.
2. The extent of NGC trading by means other than by bid-offer acceptance has expanded considerably from that initially envisaged by experts during the NETA design phase, and the BSC emphasis on bid/offer acceptances for imbalance price settings is no longer appropriate. Clearly, NGC are able to act on information not available to all participants before gate closure, and in doing so are acting on behalf of all participants. It seems reasonable that all such trades be used on an equivalent basis for imbalance pricing. This is not just an issue of transparency, but also of which trades are used in determining imbalance prices.
3. We see no reason to distinguish trades made by NGC according to the time when they are made or the governance under which they are made. P90 appears to address this point. The purpose of all such trades is, or should be, to balance the system on behalf of all participants and to compensate parties for the consequences of failure to provide access. The important issue is to distinguish which of those costs incurred by NGC should be targeted on parties in imbalance, and which should be shared.
4. We suggest that transparency and accuracy in the classification of trades undertaken by the Transmission Company, as well as flexibility for the future, could be improved by a combination of itemisation of individual trades for the purposes of imbalance pricing using a method similar to the P90 proposal, together with a weighting factor applied to the cost of each trade in imbalance pricing. This weighting factor would reflect the extent to which the trade is considered to be "system" or "energy". Currently there is an implicit weighting of 1 or 0, which we believe is excessively crude and arbitrary. By allowing other weightings, for example 0.5 for trades of less than half a settlement period duration and for other trades which obviously include both system and energy elements, a more accurate and transparent determination should be possible. Furthermore we believe that the BSC is the most appropriate and transparent governance for determining the principles and any rules by which the weighting factors are set.