

Responses for P95 Assessment Consultation

Consultation issued 8 November 2002

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non Parties Represented
1.	Entergy-Koch Trading Ltd	P95_ASS_001	2	
2.	Barclays Capital	P95_ASS_002	1	
3.	BWEA	P95_ASS_003		1
4.	The Boots Company PLC	P95_ASS_004		1
5.	Aquila Networks	P95_ASS_005	1	
6.	Powergen	P95_ASS_006	15	
7.	SmartestEnergy	P95_ASS_007	1	
8.	CHPA	P95_ASS_008		1
9.	Innogy	P95_ASS_009	9	
10.	British Energy	P95_ASS_010	3	
11.	NGC	P95_ASS_011	1	
12.	Scottish Power	P95_ASS_012	4	
13.	British Gas Trading	P95_ASS_013	4	
14.	Slough Energy Supplies Ltd	P95_ASS_014	2	2
15.	Alcan Primary Metal Europe	P95_ASS_015		1

16.	Edison Mission Energy	P95_ASS_016	3	
17.	Scottish and Southern	P95_ASS_017	4	
18.	BP Gas Marketing	P95_ASS_018	2	
19.	LE Group	P95_ASS_019	7	

P95_ASS_001 – Entergy-Koch Trading Ltd

Respondent:	<i>Name Chris Leeds</i>
BSC Party	Yes
No. of Parties Represented	2
Responding on Behalf of	<i>Entergy-Koch Trading Ltd, Damhead Creek Ltd</i>
Role of Respondent	<i>Generator/ Trader</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	It is marginally less arbitrary
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes / No	No preference
3.	Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices): a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective? Please give rationale.	B	Please see previous answers to P78 consultations.

Q	Question	Response Error! Bookmark not defined.	Rationale
4.	If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.	Yes / No	N/A
5.	Do you believe that implementation of P95 or the potential alternative will ameliorate: (i) any effects identified in Q3 and Q4? (ii) the other barriers detailed in the Modification Proposal? Please give rationale.	Yes / No	N/A
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.	No	None of the suppliers of electricity are homogenous in their nature and all have various issues to deal with. None are 'special' in that respect
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	It would adversely effect any parties who are unable to access this market
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	It creates a two tier market
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	See above

Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you have any further comments on P95 that you wish to make?	No	

P95_ASS_002 – Barclays Capital

Respondent:	Barclays Capital
BSC Party	Yes
No. of Parties Represented	1
Responding on Behalf of	Barclays Capital
Role of Respondent	Trader

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	P78 introduced a neutral price for imbalances that counteract the net system imbalance, primarily to provide more appropriate incentives to balance. An average of SBP/SSP would differ systematically from this neutral price, thereby distorting the incentive for LEGs to balance.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	No	The neutral band would give relief against imbalances based on a fixed measure of maximum LEG output across the whole of a Participant's portfolio. The relief would therefore have no direct connection to the actual imbalances incurred by the LEGs. The neutral band would therefore not directly relate to the cost of imbalances caused by LEGs.

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <ul style="list-style-type: none"> a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective? <p>Please give rationale.</p>	A	<p>By introducing a more robust method of tagging out system trades through the operation of the net imbalance volume, the main cash-out price under P78 should reflect the cost of balancing much more closely than at present. The neutral reverse price also broadly reflects the costs incurred by NGC in balancing the system. While the reverse price will not necessarily reflect the <i>actual</i> cost of imbalance determined <i>ex post</i>, it reflects the "opportunity cost" of advance purchases to meet an expected system imbalance. Given that NGC do not value individual actions to meet an expected system imbalance post gate-closure, it can therefore be deemed to be a fair "cost reflective" price for imbalances that counteract system imbalance.</p>
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	No	<p>Prices will be broadly cost-reflective. Given that the marginal cost impact of a MWh imbalance is the same irrespective of the source, prices themselves cannot have a differential or adverse impact on a particular source of that imbalance.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(iii) any effects identified in Q3 and Q4?</p> <p>(iv) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	No	<p>P95 will give suppliers a windfall for any imbalances putatively related to LEGs. The problem currently is that LEGs cannot access the full value of their output from suppliers, because suppliers pass a disproportionate share of imbalance risk back to the LEGs. It is therefore difficult to see how P95 <i>in itself</i> will result in any further value being passed back to LEGs. (In this respect, other proposals, including P100, address the root cause of the problem in a way that P95 fails to.)</p> <p>The other barriers detailed in the Modification proposal (granularity, difficulties in realising embedded benefits and administrative burden) will not be influenced by P95 at all. While P95 could be seen as “compensating” for their effects, those effects will remain.</p>
6.	<p>Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output?</p> <p>Please give rationale.</p>	No	<p>LEGs cannot be seen as a homogeneous whole: some will be good at balancing and some will not. These distinctions appear not to have been fully recognised by suppliers, such that LEGs potentially face imbalance discounts that are inappropriate to their particular characteristics. However, it is suppliers’ attitudes to LEGs rather than the inherent characteristics of a LEG or of imbalance pricing that are having an adverse impact on their ability to sell their output.</p>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	Suppliers will have access to a neutral cash-out band by contracting with LEGs. They will therefore be able to avoid imbalances on their portfolios. This will distort competition in supply since only a subset of suppliers is currently in a position to acquire LEG output. (Indeed this is one of the root causes of the problems experienced by LEGs.)
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	Pricing under P78 will be broadly cost-reflective. The cost of a MWh imbalance is the same whatever the source and imbalance pricing should reflect this. Any modification to imbalance charges under P78 for a specific group of market participants will involve undue discrimination in charging, which undermines competition in the generation and supply of electricity.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	Even if one accepts the barriers to LEG participation, P95 alternative does not remove those barriers – instead it offers relief on imbalance charges that is unrelated to the actual cost of imbalances imposed by LEGs. For this reason, P95 does not address the defect identified in the modification proposal. Even if one accepts the defect, the proposed solution therefore remains inappropriate.

Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you have any further comments on P95 that you wish to make?	Yes	Other modifications can help to address the defects identified by the proposer. In particular, P100 should facilitate LEGs capturing a greater portion of embedded benefits. P98 and P78, by reducing short-term imbalance and notification risk should also promote shorter-term trading, thereby enhancing market liquidity. As liquidity develops barriers relating to granularity and administrative burden should reduce.

P95_ASS_003 – BWEA

We are unable to comment on the detailed Modifications proposed since, as an Association, we do not have the analytical resources available to fully assess the likely consequences in the highly complex BSC. This is entirely symptomatic of the problems that many of our members experience with NETA. However we do believe the following:

- * Despite recent reductions in SBP/SSP spread prices, imbalance charges are still not reflective of the true costs imposed on the system by intermittency and unpredictability
- * The balance of bargaining power between suppliers and LEGs is firmly in favour of the suppliers
- * There is little liquidity in the market for small volumes of power
- * LEGs are unable to afford the administrative overhead associated with participation in the NETA markets, and thus unable to extract the full value from trading etc available to bigger players
- * Useful information for negotiating with suppliers is unavailable to non-signatories of the BSC.

If the proposed Modifications P95, P100, P102 and P103 will go some way to redress the balance of opportunity between LEGs and larger generators the BWEA supports them in principle. It must remain to others to judge whether the proposals will have the desired effects.

Nick Goodall
Chief Executive

P95_ASS_004 – The Boots Company Plc

Respondent:	<i>The Boots Company PLC, 1 Thane Road, D19 GRD313, Nottingham, NG90 5EF</i>
BSC Party	No ¹
No. of Parties Represented	<i>Self</i>
Responding on Behalf of	
Role of Respondent	<i>Licence Exempt Generator</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	After P78 the sell\ buy price average is the average of the old SSP and Market Price when the system is long, or the average of Market Price and old SBP when the system is short. Assuming P78 is implemented, then better to use P78 reverse price as it's a market price.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes	LEG account means greater admin costs? LEG account use would remove the supplier's ability to aggregate LEG imbalances with other ones, and would this mean that Suppliers might be unwilling to contract with LEGs

¹ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective?</p> <p>Please give rationale.</p>	b	The spread will be reduced?
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	Yes	<p>Advice we have taken says that the costs of avoiding imbalance are proportionately larger for LEGs.</p> <p>We are unable to manage imbalance risks, because they would need access to markets close to real time</p> <p>most LEGs cannot trade in GTMA or power exchanges there is an illiquid market for trading small lot sizes close to real time</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(v) any effects identified in Q3 and Q4?</p> <p>(vi) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	Yes	<p>A single cash out price should help reduce the effects of the disproportionate balancing costs LEGs suffer relative to large generators. LEGs cannot manage their [small] imbalance risk</p> <p>Supplier interest in export, very weak at present, should increase and margins built in to import because of perceived imbalance risk should disappear</p>
6.	<p>Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output?</p> <p>Please give rationale.</p>	Yes	<p>The presence of imbalance charges has helped to create a weak bargaining position. Suppliers are reluctant to contract with us, except at terms which protect them from all risks – real or imagined – we might present.</p> <p>We believe we can predict operation accurately but this is not recognised and used to ameliorate risk margins built in by purchasers of export or suppliers of import.</p>
7.	<p>Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?</p>	No	<p>The removal of a proportionately big risk for small LEGs might have a small impact on big players - BUT the system will be fairer and this should rule.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	Yes	<p>The proposed modification reduces the barriers which impede LEGs in competing effectively in the market It removes discriminatory rules that treat all parties irrespective of size and real impact as having the same affect on the BM.</p> <p>We are advised that it is consistent with</p> <ul style="list-style-type: none"> - duties of Member States under Articles 3(g), 10 and 81 of the EC Treaty not to jeopardise the effectiveness of the rules of competition - the Electricity Directive which states that Member States should not discriminate between electricity undertakings - the duties of the Secretary of State and Ofgem pursuant to s3A of the Electricity Act 1989 - the compliance by NGC of its duties as to competition under its licence and national / EU law
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	Yes	
10.	Do you have any further comments on P95 that you wish to make?	No	

P95_ASS_005 – Aquila Networks

Please find that Aquila Networks Plc response to P95 Assessment Consultation is 'No Comment'.

regards
Rachael Gardener

Deregulation Control Group &
Distribution Support Office
AQUILA NETWORKS

P95_ASS_006 – Powergen

Respondent:	Powergen
BSC Party	Yes
No. of Parties Represented	15
Responding on Behalf of	Powergen UK plc, Powergen Retail Limited, Diamond Power Generation Limited, Cottam Development Centre Limited, TXU Europe Drakelow Limited, TXU Europe Ironbridge Limited, TXU Europe High Marnham Limited, Midlands Gas Limited, Western Gas Limited, TXU Europe (AHG) Limited, TXU Europe (AH Online) Limited, Citigen (London) Limited, Severn Trent Energy Limited (known as TXU Europe (AHST) Limited), TXU Europe (AHGD) Limited and Ownlabel Energy Limited
Role of Respondent	Supplier/Generator/Exemptable Generator

Q	Question	Response	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	Although we do not agree that P95 is necessary, the neutral price under P78 appears to be more akin to what the proposer was trying to achieve.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes	Purely on the basis of cost we see the LEG neutral band as the less undesirable of the two options. However, we believe that both options provide a cross subsidy similar to that which caused Ofgem to reject P26. We do not support either option.
3.	Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices): a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective? Please give rationale.	C	Prices will never be fully cost reflective, as the industry will never fully agree the definition of what is cost reflective. The cost reflectivity of the prices is to some extent a question of perception. There are many actions taken that can be deemed to be for system and energy purposes. There are always going to be disagreement between Parties as to which should be included in, and which excluded from, energy prices. We believe that support for P78 in the industry came down to a perception that it would flatten prices which some participants preferred.

Q	Question	Response	Rationale
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	No	<p>There has been no convincing reason given for why cash out prices should be less cost reflective for LEGs than for other participants. Everyone is exposed to the same cash out prices. It is hard to see how a 1MWh imbalance due to a LEG's actions is any different to one caused by a customer's actions for instance. The advocates of this proposal have failed to demonstrate why such discrimination is appropriate.</p>
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate: (vii) any effects identified in Q3 and Q4? (viii) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	No	<p>We believe that P95 will provide a cross subsidy to those BSC Parties which register LEGs. We have not seen any convincing evidence for the barriers claimed, a reasonable description of how they work, or how P95 addresses them.</p>
6.	<p>Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.</p>	No	<p>We agree that Exemptable Generating Plant will have greater problems managing their imbalances than some other parties should they choose to participate in the market fully in the same way as licensed parties. This is a function of size meaning that their transaction costs will be higher per MWh. The situation is no different for a supplier of a similar size, however, and is not dependent on whether plant is Exemptable or not. That said, in recognition of this Exemptable plant do not have to participate in the market and can sell to a BSC Party who will deal with the imbalance risk on their behalf. A number of different contract terms can exist to do this which is a commercial matter between the two parties concerned.</p> <p>The issue is whether a BSC Party who registers a LEG under the BSC is less able to manage imbalances than an identically sized BSC Party who doesn't register a LEG. We do not see that this is the case. These BSC Parties also do not cause less balancing costs to be incurred. Therefore, they should not be exposed to preferential imbalance charges.</p>

Q	Question	Response	Rationale
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	For the reasons stated above, BSC Parties who do not register LEGs, or who register relatively fewer LEGs will be cross subsidising other BSC Parties.
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	Such a distortion in the market will be detrimental to competition in supply. Similarly, a preferential cash out regime for LEGs will give incorrect signals to the generation market which will distort competition in generation.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	Such a distortion in the market will be detrimental to competition in supply. Similarly, a preferential cash out regime for LEGs will give incorrect signals to the generation market which will distort competition in generation.
10.	Do you have any further comments on P95 that you wish to make?	No	We believe that if a subsidy is required to encourage smaller generation then this should be provided by an explicit external subsidy mechanism that is transparent. Providing one through a distortion in the trading arrangements is not the way forward in our opinion.

P95_ASS_007 – SmartestEnergy

Respondent:	<i>Robert Owens</i>
BSC Party	Yes
No. of Parties Represented	1
Responding on Behalf of	<i>SmartestEnergy Limited</i>
Role of Respondent	<i>Consolidator</i>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	No	We believe that neither method is appropriate; we do have a specific concern in that there is a danger that if the Reverse Price is truly reflective of market prices there is no (or at least a reduced) incentive for Embedded Generators to actively manage their output. If they are always cashed out at a “market reflective” price for spilling, up to the LEG capacity value (LC, MWh), without the need for worrying about imbalance then they are being incentivised to spill without out the need to bear the consequences of being short (they have no contract position). We would also maintain that the average of SSP/SBP is not cost reflective.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	No	Neither method is appropriate because the basic principles are unsound.

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective?</p> <p>Please give rationale.</p>	C	But greater cost reflectivity does not necessarily lead to greater incentivisation to balance.
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	N/A	
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(ix) any effects identified in Q3 and Q4? (x) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	No	The implementation has no effect on the cost-reflectivity of prices produced under P78, nor does P95 address other concerns with regard to liquidity or embedded benefits.
6.	<p>Do you believe that Exemptible Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.</p>	Yes	<p>But it is difficult to quantify if this has an adverse effect on their ability to sell their output. It is likely that more intermittent or unreliable generation is less able to sell their output.</p> <p>This effect is most likely true of all small players (Suppliers, consolidators, etc)</p>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	Parties would potentially have to make significant changes to their Systems. Implementation costs would be borne by all participants. Potentially valuable market signals may be distorted
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	There is still the issue on incentives on embedded generators to balance and whether or not embedded generators should be separated from other small players.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	There is still the issue on incentives on embedded generators to balance and whether or not embedded generators should be separated from other small players.
10.	Do you have any further comments on P95 that you wish to make?	Yes	Our main concern with this modification is that it attempts to remove some of the incentives from small generators to engage fully with the NETA markets, or at least to seek alternatives to direct involvement within the market, which runs counter to the basic principles of the design and could in the long term hide the true incentives within the market for this type of generation, for example the market is encouraging them at present to minimise their imbalance – this modification at the least distorts that signal.

P95_ASS_008 – CHPA

Respondent:	<i>Name Combined Heat & Power Association (CHPA)</i>
BSC Party	No ²
No. of Parties Represented	1
Responding on Behalf of	<i>Please list all Parties responding on behalf of (including the respondent company if relevant).</i>
Role of Respondent	<i>Trade Association</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	<p>Before implementation of P78, the average of SSP and SBP would give an understandable and relatively stable price. However, following the implementation of P78, the Neutral Price calculated on this basis would be an average of “old” SSP and market price when the system is long, or the average of market price and “old” SBP when the system is short. Although this would tend to average out at the market price, it will be oscillatory.</p> <ul style="list-style-type: none"> Hence the Association supports the view that, given the purpose of P95, it is clearly more sensible to use the market price (i.e. the P78 reverse price).

² Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

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2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes	<p>The Association considers that both approaches have merit. However, it considers that whilst the LEG account option may, at a theoretical level, meet the objectives of P95 more accurately, it may also present disadvantages in comparison with the LEG Neutral Band, namely:</p> <ol style="list-style-type: none"> 1. It is significantly more costly in terms of central systems and party systems; 2. It removes the current consolidation benefits between supplier demand and LEG generation – hence suppliers may be unwilling to use it – defeating the purpose of the Modification; and 3. Noting that the P95 Modification Group has agreed that the LEG Account has to have a dead band applied to it, the level of any theoretical advantage over the LEG Neutral Band appears very small. <p>These considerations should be balanced in reaching a determination over the preferred method of implementation.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective?</p> <p>Please give rationale.</p>	B	<p>a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective?</p> <p>Given that P78 will reduce the spread from £20/MWh to about £10/MWh, it is clearly more cost reflective than the current cash-out prices. However, as demonstrated in section 5 of the report of Ilex Energy Consulting "Cost Reflectivity of Imbalance Charges", "...under P78, imbalance prices will continue to be non-cost-reflective (albeit significantly improved from present arrangements...".</p> <p>In summary, the effect of P78 will be to deliver a cash-out price that is a better approximation to a cost-reflective charge, although the Association maintains that this approach fundamentally it is not cost-reflective. A true cost-reflective charge should reflect the real physical impact of an imbalance upon the system; calculation of SBP and SSP continues to reflect contractual imbalance and ignores the fact that the physical impacts of small scale generation (typical of most LEGs) is trivial.</p>

4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	Yes	<p>As stated in response to question 3, and reflecting the arguments set out in the conclusions of Ilex's "Cost Reflectivity of Imbalance Charges" report, it is the view of the Association that cash out prices will not be cost reflective even after the implementation of Modification P78. This lack of cost reflectivity will differentially and adversely affect the LEGs intended to be assisted by P95, for the following reasons:</p> <p>1.The costs of avoiding imbalance are proportionately larger for LEGs in a dual cash out system which is not fully cost reflective. For example, energy consultants Campbell Carr have concluded in a paper entitled "Impact of non-cost reflective pricing on LEGs" (which has been presented to the P95 Modification Group) that:</p> <p>"In order to avoid top-up, for every 3.3% that a large Production Account seeks to go long, small Production Accounts will need to go 13.3% long ... This costs the larger account 14p/MWh and the small accounts 55p"; and</p> <p>"The cost of targeting to balance – assumed as 1.65% short for half the time for the large account and 6.7% short for half the time for a small account is therefore 58p/MWh and for a large account, it is 14p."</p> <p>The paper also concludes that a dual cash-out price regime favours larger accounts able to trade out to a closer percentage imbalance.</p> <p>2.LEGs are unable to manage imbalance risks by trading in the NETA markets, in contrast to their larger counterparts. In order to manage imbalance risk in this way, parties must have access to liquid markets close to real time; but this is not the general case for LEGs, because:</p> <ul style="list-style-type: none"> - many LEGs are not BSC parties and are therefore excluded from trading in over the counter markets or power exchanges; and -for those LEGs that are BSC parties, liquidity in trading small lot sizes close to real time is extremely limited. <p>The impediments to LEGs managing their imbalance risk are set out at section 6 of the Ilex "Cost Reflectivity of Imbalance Charges" report.</p> <p>3. It should also be noted that small (non BSC) generators contribute (via their suppliers) to imbalance receipts, but are excluded from the redistribution of those receipts. Although such sums are currently small, they have been large in the past.</p>
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5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(xi) any effects identified in Q3 and Q4?</p> <p>(xii) The other barriers detailed in the Modification Proposal? Please give rationale.</p>	Yes	<p>(i) any effects identified in Q3 and Q4?</p> <p>The Association endorses the view that, the implementation of P95 will ameliorate the effects of the lack of cost reflectivity referred to in our responses to Questions 3 and 4 as Modification P95 and the proposed alternative (which reflects the fact that P78 has now been approved) provide for a neutral cash out price which assists in removing the differential in balancing costs between LEGs and larger generators as described in the response to Question 4.</p> <p>LEGs' current imbalance risk is disproportionate in relation to their ability to manage it, the burden of that risk being currently (and even after the implementation of P78) higher in their case than for parties who can manage it effectively. To reduce that imbalance risk to reflect LEGs' more limited means of managing it, removes the excessive and penal nature of that risk for LEGs. There is a need to retain an incentive on parties to remain in balance and P95 achieves this; although the penal element of the imbalance charges would be removed, LEGs would still have no means of predicting or controlling SSP or SBP and so would still be incentivised to avoid exposure to these prices.</p> <p>(ii) the other barriers detailed in the Modification Proposal? Please give rationale.</p> <p>The Association endorses the view that, in addition to its effects on the barrier of lack of cost reflectivity, P95 will address the other three market barriers detail in P95 as follows:</p> <p>1. Embedded Benefits – Weak Bargaining Position: As to this barrier, the effect of P95 would be to mitigate the unduly weak bargaining position for LEGs (of which the current lack of cost reflectivity for their imbalances is a principal cause) and which the</p>
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			<p>Association understands has been set out by the Proposer in previous submissions to the P95 Modification Group. If P95 is implemented, LEGs will no longer be unfairly hampered by having to negotiate with suppliers against the background of the disproportionate imbalance risk currently taken by LEGs. At present, the imbalance risk associated with LEGs' output is inevitably reflected in the negotiating positions taken by suppliers in their dealings with LEGs, which has placed LEGs in a weak bargaining position with suppliers. This analysis is corroborated in the Ilex report "Administrative Barriers Facing Licence Exempt Generation under NETA" (paragraph 2.34 and following).</p> <p>2. Illiquidity/Granularity: The current lack of adequate liquidity/granularity in the market place makes it very difficult for LEGs seeking to minimise their imbalance exposure, as it is simply impractical for them to sell in the over the counter markets and power exchanges. This denies LEGs an alternative to trading with suppliers by managing their imbalance risk as full participants in these markets. The position is analysed in the Ilex report "An Objective Assessment of the Impact of NETA on Small Generators". Although P95 will not address illiquidity/granularity directly, the reduction in LEGs' imbalance risk would enable LEGs to negotiate with suppliers from a more equitable market position as explained above and therefore reduce the impact on LEGs of the illiquidity and granularity in the NETA markets. This currently exacerbates LEGs' weak bargaining position as suppliers with the required consumer demand under the relevant GSP group, are of course aware that LEGs have no real alternative but to deal with them.</p>
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			<p>3. Administrative Burdens: By ensuring that the settlement system is more cost reflective for LEGs, the proposed modification would cause the discriminatory effects on LEGs of the administrative burdens referred to in P95 to be less damaging to LEGs. LEGs would be able to negotiate with suppliers under their GSP group from a more equitable negotiating position and therefore their inability to find a wider market for their generation output by participating in the NETA markets would be less damaging to them. See again the Ilex report "Administrative Barriers Facing Licence Exempt Generation Under NETA", particularly section 2.</p>
6.	<p>Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.</p>	Yes	<p>The response to Question 4 (paragraph 2) describes the special difficulty which LEGs have in managing their imbalance and explains why this is the case. The two Ilex reports "Cost-Reflectivity of Imbalance Charges" and "An Objective Assessment of the Impact of NETA on Small Generators", both demonstrate the existence of and reasons for that difficulty.</p> <p>The Association endorses the view that there is substantial evidence that these difficulties have had an adverse effect on LEGs' ability to sell their output. In particular:</p> <p>1. The evidence produced by respondents to the DTI's consultation of 1st November 2001 included 14 responses from the smaller generator market, including representations from both the generator sector and from trade associations, describing the weak position in which LEGs find themselves under the current market structure. It is evident from these responses that the presence of imbalance charges which the LEGs cannot manage is a principal cause of that weak bargaining position.</p>

			<p>2. The evidence presented in the responses to the DTI's consultation is corroborated by the Ilex report "Administrative Barriers Facing Licence-Exempt Generation under NETA".</p> <p>The report observes that small generators have highlighted their inability to negotiate fair contracts with suppliers within NETA. The report also notes that it may not be the number of suppliers with sufficient demand under a given GSP group which is the cause but the number of suppliers who are willing to negotiate with LEGs. The report concludes on this point:</p> <p>"Hence it is likely that, in many cases, contracting complexity is the dominant factor in terms of restricting the number of supplier offers that LEGs receive to less than might otherwise be the case. This is consistent with anecdotal evidence of contracting negotiations that Ilex has handled on behalf of small generators".</p> <p>An important source of the reluctance of suppliers to negotiate with LEGs is the presence of the LEGs' imbalance risk for which the supplier to whom the LEG sells its output becomes responsible. If the LEG itself were able to manage the imbalance risk associated with that output (or the risk were made commensurate with the LEGs' ability to manage it, as proposed by P95), then the difficulties experienced by LEGs negotiating with suppliers for the sale of their output and embedded benefits would be significantly alleviated.</p>
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties?	No	The Association has not received representations from any parties within its membership that would indicate a significant adverse

	If so who and why?		impact upon these parties.
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	Yes	<p>The Association endorses the view that Modification P95 better facilitates three of the Applicable BSC Objectives, as explained below:</p> <p>(a) the efficient discharge by the licensee of the obligations imposed upon it by the transmission licence:</p> <p>This Modification supports the compliance by NGC of its obligation under Condition C3, paragraph 1(b) to have in force a BSC designed so that the balancing and settlement arrangements facilitate achievement of the objectives set out in paragraph 3 of that Condition. In particular, this will support the objective set out at paragraph 3(c) of that Condition to promote effective competition in the generation and supply of electricity, as explained in more detail at (c) below.</p> <p>(c) 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:</p> <p>This Modification promotes competition in the generation and supply of electricity, in that:</p> <p>(i) the effect of the barriers referred to in P95 and the response to Question 5, has been to cause NETA to have a damaging and discriminatory effect upon LEGs. This has resulted in severe financial consequences for the LEG sector which threaten its continued participation in the generation market. Evidence of these financial effects is contained in Appendix A6 to Paper A of the submissions sent on behalf of the Proposer to the P95 Modification Group on 5th August</p>

		<p>2002. It is in the interests of competition that the LEG sector, comprising up to an estimated 8% of the generation market in England and Wales, should not be excluded from the market and its economic and environmental benefits thereby denied to consumers;</p> <p>(ii) although this modification proposes a system of settlement which would identify LEGs separately from other generators, it does not discriminate (unduly or at all) against other generators. Applying different rules to different classes of generator, as proposed by P95, is not discriminatory. "Discrimination" is a term with an established meaning in the context of competition law. To be discriminatory, a market must either apply different rules to parties sharing the same characteristics or apply the same rules to parties with different characteristics. The current position imposes the same rules on parties with different characteristics and as a result constitutes discrimination. In summary, the current BSC rules and market structure unduly favour larger generators by applying the same rules both to them and to LEGs, whilst at the same time LEGs are denied the opportunity to manage their imbalance risk, which is available to larger generators. The effect of P95 would simply be to alleviate the uncompetitive effects of the current settlement system so that the barriers referred to above no longer place LEGs at an unfair disadvantage to other generators; and</p> <p>(iii) the modification has the effect of introducing a change to the BSC which assists in causing it to be consistent with:</p> <p>(A) the duty of Member States under Articles 3(g), 10 and 81 of the EC Treaty not to take any measures which could jeopardise the effectiveness of the rules of competition;</p>
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		<p>(B) the requirements of Directive 96/92 (the Electricity Directive) that Member States “ensure that electricity undertakings are operated in accordance with the principles of this Directive, with a view to achieving a competitive market in electricity and shall not discriminate between these undertakings as regards either rights or obligations ...”; and</p> <p>(C) the duties of the Secretary of State and Ofgem pursuant to Section 3A of the Electricity Act 1989.</p> <p>The modification is also consistent with the compliance by NGC of its duties as to competition under the terms of its licence and under the laws of England and Wales and those of the European Union.</p> <p>Furthermore, the modification does not involve any aid favouring particular undertakings, nor aid from the state. Rather, the modification seeks to address an existing distortion of the market.</p> <p>(d) promoting efficiency in the implementation and administration of the balancing settlement arrangements:</p> <p>This modification promotes efficiency in administration. It introduces a necessary change to the settlement system as it relates to LEGs by means of a modification. Although the proposed modification can operate permanently on the basis that it supports BSC objectives, it may be superseded by other, permanent changes to the settlement system and allows time and opportunity for such permanent changes to be considered with due care.</p>
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			However, assuming modification P78 is implemented, the objectives will be better met by the potential alternative modification.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	Yes	The Association endorses the view that the “reverse” price provided for in P78 (being a market price) would form a suitable neutral price for the purposes of P95. The potential alternative Modification would therefore address the discriminatory effects of NETA referred to in P95 in substantially the same way as would the original P95 proposal. Therefore, the implementation of the potential alternative Modification would better facilitate achievement of the Applicable BSC Objectives (a), (c) and (d) for the reasons set out in the response to Question 8 above, on the assumption that P78 is implemented.
10.	Do you have any further comments on P95 that you wish to make?	Yes	<p>The P95 Consultation document (paragraph 5.2) records a view expressed by some members of the P95 Modification Group that the only barrier that could be <u>directly</u> addressed by P95 is cost reflectivity, the other barriers (listed in Section 2 of that consultation) being “secondary” issues that are a result of the cost reflectivity problem.</p> <p>The Association supports a wider interpretation that P95 will directly address the “embedded benefits - weak negotiating position” barrier. P95 will directly remove impediments to LEGs realising the value of their embedded benefits with suppliers (see paragraph 2.28 and following of Illex’s report “Administrative Barriers Facing Licence Exempt Generation under NETA”), as well as the response to Question 5. This is because the complexities and difficulties for suppliers of dealing with LEGs’ imbalance risk (which LEGs cannot manage themselves) is a disincentive to suppliers. In addition, P95 will reduce these effects of the other two barriers referred to in P95 (administrative barriers and</p>

			<p>liquidity/granularity of power markets which prevent LEGs from trading within NETA) thereby improving their negotiating position with suppliers, as described above.</p> <p>It should be noted that these three "other" barriers would still exist under a cost-reflective settlement system, given that LEGs would still be exposed to imbalance risk which they have no means of controlling (see above). It must therefore follow that the justification for P95 would continue to exist, even under a cost-reflective system.</p>
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P95_ASS_009 – Innogy

Respondent:	<i>Name Bill Reed</i>
BSC Party	Yes ³
No. of Parties Represented	
Responding on Behalf of	<i>Please list all Parties responding on behalf of (including the respondent company if relevant). Innogy plc, Innogy Cogen Limited, Np Cogen Trading Limited, Npower Limited, Npower Direct Limited, Npower Northern Limited, Npower Northern Supply Limited, Npower Yorkshire Limited, Npower Yorkshire Supply Limited.</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator – please state Error! Bookmark not defined.)</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
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³ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Neither	<p>P95 introduces significant distortions to the electricity market and does not maintain the equal treatment of all market participants. We believe that it is inappropriate to cash out LEGs at a neutral price. Ofgem approval of P78, which should reduce the incentive for parties to contract long and remove some of the extreme prices experienced under the current methodology, should help to alleviate the problems that P95 is seeking to address.</p> <p>Furthermore, it is difficult to determine what is actually meant by a "neutral price" for cash-out purposes. Under P78 the market price is designed to reflect the "short-term" costs of energy balancing while the calculated "main price" is designed to reflect the actual costs incurred by NGC in the direction of imbalance. It may be appropriate to use the market price if it is considered that the "neutral price" should reflect the short term costs of energy balancing (which could, of course, be volatile) (i.e. the market price is the price that LEGs could have achieved if they had traded a position shortly before to gate closure). However, to avoid distortions, all accounts that are in imbalance should be cashed out at a price that reflects the short-term costs of balancing (i.e. a single price).</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Neither	<p>Both the LEG Neutral Band and the LEG account method for implementation are administratively complex and expensive to operate. We do not support either approach for implementation of P95.</p> <p>We are concerned that the use of a LEG Neutral Band may encourage suppliers to contract with LEGs simply to create a volume for the purposes of neutral cash out. While this would be advantageous for LEGs, it will introduce a further market distortion.</p>
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective?</p> <p>Please give rationale.</p>	None	<p>We believe that this question has been answered in the consultation process associated with P78 and the associated Ofgem determination (Ofgem clearly believe that P78 dual cash out does result in cost reflective prices).</p> <p>Since P95 is proposing that LEGs are cashed out at a neutral price, the question as to whether P78 is cost reflective does not seem to be an appropriate in this consultation. What is clear is that the neutral price as proposed under P95 is not cost reflective by definition when compared with P78 dual cash out. However, we would note that cash out based on a single price should reflect that energy has only one price in any settlement period (c.f. Ilex Report, A note from ILEX to Slough Heat and Power, 11 November 2002 submitted to the P95 Mod Group). Therefore, to avoid market distortions, all accounts should be cashed out at a single price.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
4.	If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.	No	Cash out charges whether (cost reflective or not) affect all parties with unpredictable generation or demand equally. P95 proposes that LEGs are excluded from dual cash out while other parties with equally unpredictable output or demand are treated differently. This is a significant market distortion. There is, however, no guarantee that cash out for a single group of parties would reduce risk for those parties (for example, the market price could be volatile).
5.	Do you believe that implementation of P95 or the potential alternative will ameliorate: (xiii) any effects identified in Q3 and Q4? (xiv) the other barriers detailed in the Modification Proposal? Please give rationale.	No	The intention of P95 is to provide transitional relief in the form of neutral cash-out while the "barriers" identified in the Modification Proposal are addressed. P95 does not directly address the "defects" as defined under the Modification Proposal. It merely creates a cross subsidy from Parties that are signatories of the BSC to certain market participants that are not parties to the BSC. Indeed it is debatable as to whether the "defects" identified under P95 are defects in the BSC or relate to specific problems for LEGs under the current market structure.
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.	No	The cash-out regime is designed to encourage all parties to balance and thereby assist the system operator in balancing the system. Those market participants that find imbalance costs are high, including exemptable generating plant, are incentivised to invest in systems and processes to reduce these costs. The difficulties of specific market participants in managing imbalance are not a matter for the BSC.
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	Cash-out of certain parties at a single price will introduce differential incentives on market participants to balance. This is a significant market distortion that could lead to higher imbalance costs for all parties and for the system operator in balancing the system.

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	The proposal distorts the market and does not maintain the equal treatment of all market participants.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	The potential alternative Modification also distorts the market and does not maintain the equal treatment of all market participants.
10.	Do you have any further comments on P95 that you wish to make?	No	

P95_ASS_010 – British Energy

To: Modification Secretary

From: Rachel Ace

Date: 22 November 2002

General Points

BE does not support the original proposal or any of the possible alternatives outlined in the document. To change the BSC to implement this proposal would we believe introduce a cross-subsidy resulting in distortions to the market which would have an adverse effect on competition. The change would therefore not better facilitate the BSC objectives as compared to the present baseline.

Our more detailed reasoning / comments

The justifications for raising the modification given by the proposer are in the main outside the vireos of the BSC and should be ignored for the purposes of assessment. The only issue which could be considered is the one of non cost reflective imbalance prices.

The whole rationale for P78 was to create a more cost reflective cash out mechanism. A 1MW imbalance irrespective of who causes it will cost the SO

the same amount and it therefore seems inappropriate to settle imbalances at different prices simply because one was caused by an exemptable generating plant. Even if it could be argued that P78 will still result in cashout prices that are not fully cost reflective this will apply equally to all parties and the Code should not change to introduce a cross-subsidy.

We believe that P95 does in fact propose a form of cross-subsidy between those BSC Trading parties trading exemptable generating plant and those without. Such an approach will not target the costs of imbalance on all those out of balance creating distortions in the market and damaging competition.

Rachel Ace

On behalf of

British Energy Generation
British Energy Power and Energy Trading
Eggborough Power Ltd

P95_ASS_011 – NGC

Respondent:	<i>Clare Talbot</i>
BSC Party	Yes ⁴
No. of Parties Represented	<i>One</i>
Responding on Behalf of	<i>Please list all Parties responding on behalf of (including the respondent company if relevant). National Grid</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator – please state Error! Bookmark not defined.) Transmission Company</i>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	We agree with the rationale of the modification group that the SSP/SBP average under a P78 baseline would be higher than the 'neutral price' when the market was short, and lower than the 'neutral price' when the market was long.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes	We agree that the neutral band is a more appropriate implementation method, however, we have concerns on how it would operate in practice as it does not target the 'benefit' directly to the Exemptable Generators, see answer to Q9.
3.	Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices): a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective? Please give rationale.	B	As we stated in our response to the P78 consultation, we believe that P78 will more correctly target the cost of energy balancing actions to those causing the imbalance over the current baseline. We are doubtful that "totally cost reflective" pricing can be achieved when a single control action can contribute to resolving both system and energy balancing.

⁴ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response Error! Bookmark not defined.	Rationale
4.	If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.	No	To the extent that the imbalance prices post-P78 will not be 100% cost reflective, this will be so for all Parties and will not differentially affect Exemptable Generators. Also, as the System Operator of a fully integrated system, the impact on frequency despatch of a MW being lost does not depend upon the location of the MW concerned; therefore the impact of small errors is independent of the type of plant concerned.
5.	Do you believe that implementation of P95 or the potential alternative will ameliorate: (xv) any effects identified in Q3 and Q4? (xvi) the other barriers detailed in the Modification Proposal? Please give rationale.	No	(i) Q3 & Q4 are concerned with cost-reflectivity of imbalance prices which affect all parties whereas this modification affects only a small subset. If P95 is believed to be more cost reflective, then it should be proposed for all Parties. (ii) This modification seeks only to remove the exposure to imbalance prices. The other barriers mentioned in the modification proposal involve commercial arrangement that will not be directly affected and are not directly relevant to the merits of P95.
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.	No	The existing cashout prices apply to all Parties and P78 has been approved to make them more cost reflective to all. It follows that an exemption must be justified on the basis that imbalance prices are not cost reflective. We do not believe that this case has been made.

Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	By exempting a minority of Parties exposure to imbalance prices would cause a cross subsidy. There is no difference between the system impact of small imbalances be they from an Exemptable Generating Plant or any other Party to how the System Operator balances the system, see answer to Q4.
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	We agree with the modification group that the neutral price as defined in the proposal does not now address the perceived defect
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	We believe that it does not better facilitate BSC Objective (b) - the efficient, economic and co-ordinated operation of the Transmission System, please see answers to Q A below.
10.	Do you have any further comments on P95 that you wish to make?	No	

TRANSMISSION COMPANY:

PLEASE RESPONSE TO THIS CONSULTATION IN ACCORDANCE WITH SECTION F2.8 OF THE CODE AND PROVIDE A RESPONSE TO THE FOLLOWING QUESTIONS IN ADDITION TO QUESTIONS 1 - 10:

Q	Question	Response Error! Bookmark not defined.	Rationale

A	<p>What effect will the implementation of P95 or the preferred alternative option have on the ability of the System Operator to balance the system? Please give rationale</p>		<p>The definition of the "neutral price" in P95 is flawed giving an incentive to hold a position opposite to market length. This disincentivises Exemptable Generating Plant from balancing if they are able to predict whether the market will be long or short. Whilst a benefit measured on actual volumes generated would be better targeted, this would still dis-incentivise Parties to balance. The preferred alternative option to P95 of the neutrality band, which is based on registered capacity of Exemptable Generating Plant, has the potential to increase the volume of imbalance even more.</p>
B	<p>If you believe that implementing P95 may increase net imbalances then by what order of magnitude compared to current experience? Please give rationale.</p>		<p>Given an estimate of 6GW of LEG capacity then there is the potential of 3GWh being subject to the neutrality band rules. It is likely that some form of asymmetry will encourage participants to maximise the benefit of the neutral band. We therefore estimate that most of the neutral band will translate into imbalance.</p>

P95_ASS_012 – Scottish Power

Respondent:	Man Kwong Liu
BSC Party	Yes
No. of Parties Represented	4
Responding on Behalf of	<i>Please list all Parties responding on behalf of (including the respondent company if relevant). Scottish Power UK plc; ScottishPower Energy Trading Ltd.; Scottish Power Generation plc; ScottishPower Energy Retail Ltd.;</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator – please state) All</i>

Q	Question	Response	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	In view of the change to the baseline, it is necessary to consider whether the Neutral Price formulation in P95 original is still appropriate. As the analysis presented to the Mod Group indicates that the P78 Reverse Price would be lower in comparison to the average of SBP/SSP and the intent of P95 is to reduce the imbalance cash-out impact on LEGs, this suggests that the P78 Reverse Price is appropriate. However, this does depend on the availability for each half-hour of a P78 Reverse Price after this solution is implemented.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes	The LEG Neutral Band is the least cost solution and is more appropriate in circumstances where only a limited number of BSC Parties are likely to use a P95 solution.

Q	Question	Response	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective?</p> <p>b) more cost reflective?</p> <p>c) no change in cost reflectivity?</p> <p>d) less cost reflective?</p> <p>Please give rationale.</p>	B	<p>It is difficult to make a judgement now about whether P78 will provide more cost-reflective pricing for imbalance cash-out. However, as there is likely to be a greater reliance on energy balancing actions to determine the main price and reliance on short-term energy trades to derive the reverse price, it is arguable that prices will be more cost reflective.</p>
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	Yes/No	N/A, please see our response on Qu. 3
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(xvii) any effects identified in Q3 and Q4?</p> <p>(xviii) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	No	<p>We indicated in our Definition response that the effects of the current formulation of imbalance price calculation has impacted upon all Parties, although we noted that Exemptable Generators may have been impacted to a greater degree due to their size. However, this does not necessarily imply that these players should be able to seek a differential treatment of this impact by being cashed out at a separate imbalance price. There are other means by which LEGs are able to reduce their risks of imbalance, most notably through offering output to consolidation. This option has been available as a result of the approval of various BSC modifications. The use of this option would also help to deal with the various difficulties highlighted in respect of realising embedded benefits, having a liquid market in which to trade volumes and relieving LEGs of some of the administrative burdens of trading.</p>

Q	Question	Response	Rationale
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.	Yes	However, note our reply to Qu. 5 which indicates a solution for LEGs which does not create differential treatment amongst market participants and the risks which they face in respect of imbalance pricing.
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	It is not possible to say if there would be a direct adverse impact, although those participants using P95 or its Alternative would be able to obtain differential treatment from those not using either of these solutions.
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	P95 and its Alternative create the potential for differential treatment between market participants, which cannot be justified in terms of promoting effective competition in generation and supply. LEGs have other options by which to reduce their exposure to the imbalance price risks, which are faced by all participants. There is also likely to be a considerable cost to central systems to implement this option which will be borne by all BSC Parties even though only a limited number of participants may wish to use the proposed solution. This does not promote efficiency in the implementation of the trading arrangements.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	Please see the response to Qu. 8. However, if there is a recommendation to accept either P95 or its Alternative, we would prefer that the Alternative is implemented as it is the least cost solution
10.	Do you have any further comments on P95 that you wish to make?	Yes	We have indicated, in relation to a number of modifications dealing with imbalance pricing, that a rigorous analysis of the issues and the implementation of a holistic solution flowing from that analysis would be preferable. We would like to see the Pricing Issues Standing Group taking a role in undertaking that analysis.

P95_ASS_013 – British Gas Trading

Respondent:	<i>British Gas Trading</i>
BSC Party	Yes
No. of Parties Represented	4
Responding on Behalf of	Accord Energy Ltd, Centrica KL Ltd and Centrica PB Ltd
Role of Respondent	<i>Supplier/Generator/ Trader</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.		We do not support the Proposal or the potential Alternative.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	No	We do not support the proposal or the potential Alternative. P26 proposed a trading neutrality band for all participants. This was rejected by the industry and Ofgem on the basis that neutrality bands failed to properly target the costs of system balancing. We fail to see how this proposal, which limits the trading neutrality band to LEGs, or those that contract with LEGs, better achieves targeting of energy balancing costs over the current arrangements, or the LEG account methodology.

Q	Question	Response Error! Bookmark not defined.	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective? Please give rationale.</p>	B	<p>We believe that following the implementation of P78, the cash out prices are likely to be more cost reflective than before. It is difficult to predict how cost reflective the prices are likely to be, therefore we cannot say definitely that they will be totally or near totally cost reflective, but research indicates they will be in this direction. Additionally, a lot of work was carried out on the P78 proposal during its development and implementation. We do not believe it is appropriate that this debate is required under P95. This is outside the vires of the modification group.</p>
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	No	<p>Most LEGs contract with suppliers to manage their imbalance risk. If a LEG's imbalance is difficult to predict then they should face the cost of that unpredictability through the prices offered in negotiations with the supplier or consolidator. We do not believe that the industry should cross subsidise these players, to the detriment of others.</p>
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(xix) any effects identified in Q3 and Q4? (xx) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	No	<p>We believe that the implementation of P95 or the potential alternative will cross subsidise LEGs or those that contract with LEGs to the detriment of all other players. If P78 does not prove to be cost reflective, a modification should be raised to address this.</p>
6.	<p>Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.</p>	No	<p>If they do have a special difficulty in managing their imbalance then suppliers or consolidators will also have this problem, hence the low contract terms they are able to negotiate.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	It will incentivise parties who have contracted with LEGs not to balance thus utilising the full advantage of the neutrality band. Any parties in excess of their neutrality band or with no contracts with LEGs will be subsidising the imbalance costs associated with LEGs. These costs could be considerable across the large number of LEGs currently generating and will be divided among a smaller number of players.
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	We believe that this modification will incentivise suppliers not to balance, this is directly contrary to Applicable BSC Objective B by increasing the costs of energy balancing.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	Both the original proposal and the potential alternative are contrary to Applicable BSC Objective B as they offer a disincentive to balance.

Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you have any further comments on P95 that you wish to make?	Yes	<p>We believe that the modification proposal doesn't directly solve any contractual issues that LEGs are dissatisfied with. It merely creates a cross subsidy to mitigate and improve their bargaining position. We believe that this issue should not be dealt with under the BSC, as it is a contracting issue. Currently, there is an excess of Electricity production, resulting in low contract terms being negotiated, this is natural behaviour in a supply and demand market.</p> <p>In addition, we believe the size of the neutrality band (name plate registration volume) raises a number of concerns.</p> <ul style="list-style-type: none"> - The LEG can be cashed out at a neutral price for it's entire generating capability rather than its performance, or its imbalance. - What happens with stand by or back up plant ? - Who and how will this generating capability be policed ?

P95_ASS_014 – Slough Energy Supplies Ltd

Respondent:	Name <i>SLOUGH ENERGY SUPPLIES LIMITED</i>
BSC Party	Yes ⁵
No. of Parties Represented	4
Responding on Behalf of	<i>Please list all Parties responding on behalf of (including the respondent company if relevant). Slough Energy Supplies Limited (the respondent); Fibrepower Slough Limited (generator); Slough Energy Contracts Limited (exemptable generator); Slough Utility Services Limited (exemptable generator).</i>
Role of Respondent	<i>Supplier</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	<p>Before implementation of P78, the average of SSP and SBP would give an understandable and relatively stable price. Following the implementation of P78, the neutral price should be an average of “old” SSP and market price when the system is long, or the average of market price and “old” SBP when the system is short. Although this would tend to average out at the market price, it will be oscillatory.</p> <p>Hence, given the purpose of P95, it is clearly more sensible to use the market price (i.e. the P78 reverse price).</p>
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes	<p>Whilst the LEG account option may, at a theoretical level, meet the objectives of P95 more accurately, it also has disadvantages in comparison with the LEG Neutral Band, namely:</p> <ol style="list-style-type: none"> 1. It is significantly more costly in terms of central systems and party systems;

⁵ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>2. It removes the current consolidation benefits between supplier demand and LEG generation – hence suppliers may be unwilling to use it – defeating the purpose of the Modification; and</p> <p>3. Noting that the P95 Modification Group has agreed that the LEG Account has to have a dead band applied to it, the level of any theoretical advantage over the LEG Neutral Band appears very small.</p>
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective?</p> <p>b) more cost reflective?</p> <p>c) no change in cost reflectivity?</p> <p>d) less cost reflective?</p> <p>Please give rationale.</p>	B	<p>If a price is cost reflective then a buyer will be willing to pay slightly above that price to receive the product (i.e. an agent’s fee, typically 2p/MWh in electricity) and a seller will be happy to get paid slightly below that price to deliver the product (i.e. again an agent’s fee, typically 2p/MWh in electricity).</p> <p>Given that P78 will reduce the spread from £20/MWh to about £10/MWh, it is clearly more cost reflective than the current cash-out prices. However, as demonstrated in section 5 of the report of Ilex Energy Consulting “Cost Reflectivity of Imbalance Charges”, “...under P78, imbalance prices will continue to be non-cost-reflective (albeit significantly improved from present arrangements...)”.</p>
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	Yes	<p>It is our view that for the reasons stated in the conclusions of Ilex’s “Cost Reflectivity of Imbalance Charges” report, cash out prices will not be cost reflective even after the implementation of Modification P78. This lack of cost reflectivity will differentially and adversely affect the LEGs intended to be assisted by P95, for the following reasons:</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>1. The costs of avoiding imbalance are proportionately larger for LEGs in a dual cash out system which is not fully cost reflective. For example, energy consultants Campbell Carr have concluded in a paper entitled "Impact of non-cost reflective pricing on LEGs" (which has been presented to the P95 Modification Group) that:</p> <p style="padding-left: 40px;">"In order to avoid top-up, for every 3.3% that a large Production Account seeks to go long, small Production Accounts will need to go 13.3% long ... This costs the larger account 14p/MWh and the small accounts 55p"; and</p> <p style="padding-left: 40px;">"The cost of targeting to balance – assumed as 1.65% short for half the time for the large account and 6.7% short for half the time for a small account is therefore 58p/MWh and for a large account, it is 14p."</p> <p>The paper also concludes that a dual cash-out price regime favours larger accounts able to trade out to a closer percentage imbalance.</p> <p>2. LEGs are unable to manage imbalance risks by trading in the NETA markets, in contrast to their larger counterparts. In order to manage imbalance risk in this way, parties must have access to liquid markets close to real time; but this is not the case for LEGs, because:</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<ul style="list-style-type: none"> - most LEGs are not BSC parties and are therefore excluded from trading in over the counter markets or power exchanges; and - for those LEGs that are BSC parties, liquidity in trading small lot sizes close to real time is extremely limited. <p>The impediments to LEGs managing their imbalance risk are set out at section 6 of the Ilex “Cost Reflectivity of Imbalance Charges” report.</p> <p>3. It should also be noted that small (non BSC) generators contribute (via their suppliers) to imbalance receipts, but are excluded from the redistribution of those receipts. Although such sums are currently small, they have been large in the past.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(xxi) any effects identified in Q3 and Q4?</p> <p>(xxii) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	Yes	<p>(i) any effects identified in Q3 and Q4?</p> <p>The implementation of P95 will ameliorate the effects of the lack of cost reflectivity referred to in our responses to Questions 3 and 4 as Modification P95 and the proposed alternative (which reflects the fact that P78 has now been approved) provide for a neutral cash out price which assists in removing the differential in balancing costs between LEGs and larger generators as described in the response to Question 4.</p> <p>LEGs' current imbalance risk is disproportionate in relation to their ability to manage it, the burden of that risk being currently (and even after the implementation of P78) higher in their case than for parties who can manage it effectively. Reducing that imbalance risk to reflect LEGs' more limited means of managing it, removes the excessive and penal nature of that risk for LEGs.</p> <p>The Proposer recognises the need to retain an incentive to remain in balance and P95 achieves this; although the penal element of the imbalance charges would be removed, LEGs would still have no means of predicting or controlling SSP or SBP and so would still be incentivised to avoid exposure to these prices.</p> <p>(ii) the other barriers detailed in the Modification Proposal?</p> <p>In addition to its effects on the barrier of lack of cost reflectivity, P95 will address the other three market barriers detailed in P95 as follows:</p> <ol style="list-style-type: none"> 1. Embedded Benefits – Weak Bargaining Position: As to this barrier, the effect of P95 would be to mitigate the unduly weak bargaining position for LEGs (of which the current lack of cost

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>reflectivity for their imbalances is a principal cause) and which is detailed in the Proposer’s previous submissions to the P95 Modification Group.</p> <p>If P95 is implemented, LEGs will no longer be unfairly hampered by having to negotiate with suppliers against the background of the disproportionate imbalance risk currently taken by LEGs. At present, the imbalance risk associated with LEGs’ output is inevitably reflected in the negotiating positions taken by suppliers in their dealings with LEGs, which has placed LEGs in a weak bargaining position with suppliers. This analysis is corroborated in the Ilex report “Administrative Barriers Facing Licence Exempt Generation under NETA” (paragraph 2.34 and following). The dominance of a limited number of suppliers under GSP groups is confirmed by Elexon’s Draft Assessment Report for Modification Proposal P100 (Extension of Demand – side Trading Units) which states – “However the analysis is deemed sufficient to corroborate the Proposer’s view that a number of large Suppliers dominate the supply market within their respective GSP Groups.”</p> <p>2. Illiquidity/Granularity: The current lack of adequate liquidity/granularity in the market place makes it very difficult for LEGs seeking to minimise their imbalance exposure, as it is simply impractical for them to sell in the over the counter markets and power exchanges. This denies LEGs an alternative to trading with suppliers by managing their imbalance risk as full participants in these markets. The position is analysed in the Ilex report “An Objective Assessment of the Impact of NETA on Small Generators”. A paper presented on behalf of the Proposer –</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>“Ofgem Review – Misleading Conclusions”, also demonstrates the absence of liquidity as it may affect LEGs, in contrast to the conclusions reached by Ofgem in its review of the first year of operation of NETA.</p> <p>Although P95 will not address illiquidity/granularity directly, the reduction in LEGs’ imbalance risk would enable LEGs to negotiate with suppliers from a more equitable market position as explained above and therefore reduce the impact on LEGs of the illiquidity and granularity in the NETA markets. This currently exacerbates LEGs’ weak bargaining position as suppliers with the required consumer demand under the relevant GSP group, are of course aware that LEGs have no real alternative but to deal with them.</p> <p>3. Administrative Burdens: By ensuring that the settlement system is more cost reflective for LEGs, the proposed modification would cause the discriminatory effects on LEGs of the administrative burdens referred to in P95 to be less damaging. LEGs would be able to negotiate with suppliers under their GSP group from a more equitable negotiating position and therefore their inability to find a wider market for their generation output by participating in the NETA markets would be less damaging to them. See again the Ilex report “Administrative Barriers Facing Licence Exempt Generation Under NETA”, particularly section 2.</p>
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has	Yes	The response to Question 4 (paragraph 2) describes the special difficulty which LEGs have in managing their imbalance and explains why this is the case. The two Ilex reports “Cost-Reflectivity of

Q	Question	Response Error! Bookmark not defined.	Rationale
	<p>that had an adverse effect on their ability to sell their output? Please give rationale.</p>		<p>Imbalance Charges” and “An Objective Assessment of the Impact of NETA on Small Generators”, both demonstrate the existence of and reasons for that difficulty.</p> <p>There is very substantial evidence that these difficulties have had an adverse effect on LEGs’ ability to sell their output. In particular:</p> <ol style="list-style-type: none"> 1. The evidence produced by respondents to the DTI’s consultation of 1st November 2001 included 14 responses from the smaller generator market, including representations from both the generator sector and from trade associations, describing the weak position in which LEGs find themselves under the current market structure. It is evident from these responses that the presence of imbalance charges which the LEGs cannot manage is a principal cause of that weak bargaining position. 2. The evidence presented in the responses to the DTI’s consultation is corroborated by the Ilex report “Administrative Barriers Facing Licence-Exempt Generation under NETA”. <p>The report observes that small generators have highlighted their inability to negotiate fair contracts with suppliers within NETA. The report also notes that it may not be the number of suppliers with sufficient demand under a given GSP group which is the cause but the number of suppliers who are willing to negotiate with LEGs. The report concludes on this point:</p> <p>“Hence it is likely that, in many cases, contracting complexity is the dominant factor</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>in terms of restricting the number of supplier offers that LEGs receive to less than might otherwise be the case. This is consistent with anecdotal evidence of contracting negotiations that Ilex has handled on behalf of small generators”.</p> <p>The paper presented to the P95 Modification Group “Ofgem One Year Review – Misleading Conclusions”, demonstrates the decline in combined heat and power output following the introduction of NETA, contrary to the conclusion of the Ofgem review. That paper also addressed the effect of NETA on the pricing of smaller generator output.</p> <p>An important source of the reluctance of suppliers to negotiate with LEGs is the presence of the LEGs’ imbalance risk for which the supplier to whom the LEG sells its output becomes responsible. If the LEG itself were able to manage the imbalance risk associated with that output (or the risk were made commensurate with the LEGs’ ability to manage it, as proposed by P95), then the difficulties experienced by LEGs negotiating with suppliers for the sale of their output and embedded benefits would be significantly alleviated.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	No	<p>Large BSC Parties (in particular large suppliers) will see a slight erosion of margins but the volumes involved are very small compared to the total size of the market. However, to the extent that such erosion takes place, it will only reflect the mitigation of the current imperfect competitive state of the market as it affects LEGs, which is the underlying purpose of P95. Please see further details on the relevant competition issues in the response to Question 8.</p> <p>NGC and other parties will see little difference.</p> <p>It is anticipated that LEGs will see an improvement in their contractual terms reached with suppliers should P95 be implemented but in default of that, they will have more opportunity to enter the CVA within an imbalance regime more appropriate to the costs they impose on the system.</p>
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	Yes	<p>Modification P95, better facilitates three of the Applicable BSC Objectives, as explained below:</p> <p>(a) the efficient discharge by the licensee of the obligations imposed upon it by the transmission licence:</p> <p>This Modification supports the compliance by NGC of its obligation under Condition C3, paragraph 1(b) to have in force a BSC designed so that the balancing and settlement arrangements facilitate achievement of the objectives set out in paragraph 3 of that Condition. In particular,</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>this will support the objective set out at paragraph 3(c) of that Condition to promote effective competition in the generation and supply of electricity, as explained in more detail at (c) below.</p> <p>(c) 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:</p> <p>This Modification promotes competition in the generation and supply of electricity, in that:</p> <p>(i) the effect of the barriers referred to in P95 and the response to Question 5, has been to cause NETA to have a damaging and discriminatory effect upon LEGs. This has resulted in severe financial consequences for the LEG sector which threaten its continued participation in the generation market. Evidence of these financial effects is contained in Appendix A6 to Paper A of the submissions sent on behalf of the Proposer to the P95 Modification Group on 5th August 2002. It is in the interests of competition that the LEG sector, comprising up to an estimated 8% of the generation market in England and Wales, should not be excluded from the market and its economic and environmental benefits thereby denied to consumers;</p> <p>(ii) although this modification proposes a system of</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>settlement which would identify LEGs separately from other generators, it does not discriminate (unduly or at all) against other generators. Applying different rules to different classes of generator, as proposed by P95, is <u>not</u> discriminatory. "Discrimination" is a term with an established meaning in the context of competition law. To be discriminatory, a market must either apply different rules to parties sharing the same characteristics or apply the same rules to parties with different characteristics. The current position imposes the same rules on parties with different characteristics and as a result constitutes discrimination. In summary, the current BSC rules and market structure unduly favour larger generators by applying the same rules both to them and to LEGs, whilst at the same time LEGs are denied the opportunity to manage their imbalance risk, which is available to larger generators. The effect of P95 would simply be to alleviate the uncompetitive effects of the current settlement system so that the barriers referred to above no longer place LEGs at an unfair disadvantage to other generators; and</p> <p>(iii) the modification has the effect of introducing a change to the BSC which assists in causing it to be consistent with:</p> <p>(A) the duty of Member States under Articles 3(g), 10 and 81 of the EC Treaty not to take any measures which could jeopardise the effectiveness of the rules of competition;</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>(B) the requirements of Directive 96/92 (the Electricity Directive) that Member States “ensure that electricity undertakings are operated in accordance with the principles of this Directive, with a view to achieving a competitive market in electricity and shall not discriminate between these undertakings as regards either rights or obligations ...”; and</p> <p>(C) the duties of the Secretary of State and Ofgem pursuant to Section 3A of the Electricity Act 1989.</p> <p>The modification is also consistent with the compliance by NGC of its duties as to competition under the terms of its licence and under the laws of England and Wales and those of the European Union.</p> <p>Furthermore, the modification does not involve any aid favouring particular undertakings, nor aid from the state. Rather, the modification seeks to address an existing distortion of the market.</p> <p>(d) promoting efficiency in the implementation and administration of the balancing settlement arrangements:</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>This modification promotes efficiency in administration. It introduces a necessary change to the settlement system as it relates to LEGs by means of a modification. Although the proposed modification can operate permanently on the basis that it supports BSC objectives, it may be superseded by other, permanent changes to the settlement system and allows time and opportunity for such permanent changes to be considered with due care.</p> <p>However, assuming Modification P78 is implemented, the objectives will be better met by the potential alternative modification.</p>
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	Yes	The “reverse” price provided for in P78 (being a market price) would form a suitable neutral price for the purposes of P95. The potential alternative Modification would therefore address the discriminatory effects of NETA referred to in P95 in substantially the same way as would the original P95 proposal. Therefore, the implementation of the potential alternative Modification would better facilitate achievement of the Applicable BSC Objectives (a), (c) and (d) for the reasons set out in the response to Question 8 above, on the assumption that P78 is implemented.
10.	Do you have any further comments on P95 that you wish to make?	Yes	The P95 Consultation document (paragraph 5.2) records a view expressed by some members of the P95 Modification Group that the only barrier that could be <u>directly</u> addressed by P95 is cost reflectivity, the other barriers (listed in Section 2 of that consultation) being “secondary” issues that are a result of the cost reflectivity problem.

Q	Question	Response Error! Bookmark not defined.	Rationale
			<p>However, P95 <u>does</u> directly address the “embedded benefits - weak negotiating position” barrier. P95 will directly remove impediments to LEGs realising the value of their embedded benefits with suppliers (see paragraph 2.28 and following of Ilex’s report “Administrative Barriers Facing Licence Exempt Generation under NETA”), as well as the response to Question 5. This is because the complexities and difficulties for suppliers of dealing with LEGs’ imbalance risk (which LEGs cannot manage themselves) is a disincentive to suppliers. In addition, P95 will reduce these effects of the other two barriers referred to in P95 (administrative barriers and liquidity/granularity of power markets which prevent LEGs from trading within NETA) thereby improving their negotiating position with suppliers, as described above.</p> <p>It should be noted that these three “other” barriers would still exist under a cost-reflective settlement system, given that LEGs would still be exposed to imbalance risk which they have no means of controlling (see above). It must therefore follow that the justification for P95 would continue to exist, even under a cost-reflective system.</p>

P95_ASS_015 – Alcan Primary Metal Europe

Respondent:	<i>R NICHOLSON</i>
BSC Party	Yes/No ⁶ No
No. of Parties Represented	
Responding on Behalf of	<i>Please list all Parties responding on behalf of (including the respondent company if relevant).ALCAN PRIMARY METAL EUROPE- LYNEMOUTH WORKS</i>
Role of Respondent	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator – please state Error! Bookmark not defined.)LICENCE EXEMPT GENERATOR</i>

Q	Question	Response <small>Error! Bookmark not defined.</small>	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes / No YES	On the basis that P78 is implemented it would be more sensible to use the P78 reverse price. This would then be market price.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes / No Yes	Using the LEG account would prevent supplier aggregation and may leave suppliers still unwilling to contract with LEGs.
3.	Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices): a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective? Please give rationale.	A B C D A	More cost reflective as spread will be reduced.

⁶ Delete as appropriate – please do not use strikethrough, this is to make it easier to analyse the responses

Q	Question	Response Error! Bookmark not defined.	Rationale
4.	If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.	Yes / No Yes	LEGs have difficulty in managing imbalance and therefore have to face the full imbalance charges. Access to market and trading small amounts is difficult if not impossible.
5.	Do you believe that implementation of P95 or the potential alternative will ameliorate: (xxiii) any effects identified in Q3 and Q4? (xxiv) the other barriers detailed in the Modification Proposal? Please give rationale.	Yes / No Yes	Single cash out price will help reduce the greater balancing costs of LEGs as compared to larger generation. Reduction of the imbalance risk will help reduce the discount on LEGs contract energy.
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.	Yes/No Yes	Without the assistance of other generation and supply the imbalance risk is more pronounced. This results in a reduced return on LEG energy.
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes /No Yes	There will be a small effect on larger BSC parties. This it could be argued is simply correctly realigning costs.
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	Yes / No Yes	This will better effect competition in allowing LEGs to be less impeded in their route to market.
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	Yes / No Yes	But using the neutral price from P78

Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you have any further comments on P95 that you wish to make?	Yes / No Yes	With the barriers to LEGs in the market, modifications such as P95 help overcome these barriers.

P95_ASS_016 – Edison Mission Energy

Respondent:	<i>Libby Glazebrook</i>
BSC Party	Yes
No. of Parties Represented	3
Responding on Behalf of	<i>Edison First Power, First Hydro Company, Lakeland Power</i>
Role of Respondent	<i>Generator</i>

Q	Question	Response	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	No	No. The use of a market related price does not provide incentives to balance on the part of the LEG or the BSC Party registering the output.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	No	The LEG Capacity does not have to be linked to actual LEG output, only an estimate. This provides the BSC party that registers the BM Unit with a permanent fixed quantity that will not be exposed to cashout prices. This gives the BSC parties who purchases this output and LEGs an unfair advantage - the LEG is not exposed to the transaction costs of trading its output and can avoid any imbalance exposure. The BSC Party avoids imbalance charges up to the value of LC regardless of whether the LEG actually generated. This proposal does more than ameliorate the effects of the barriers for LEGs as suggested by the Proposer. It also gives an advantage to BSC parties (suppliers) purchasing the output from LEGs.

Q	Question	Response	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective?</p> <p>b) more cost reflective?</p> <p>c) no change in cost reflectivity?</p> <p>d) less cost reflective?</p> <p>Please give rationale.</p>	C	<p>There will be no change in the degree of cost reflectivity. The pre P78 cashout prices use one method that isn't cost reflective to calculate cashout prices. This will be replaced by another method which is different but since legitimate energy balancing actions on the smaller stack will be excluded from the calculation of cashout prices it is probably no more cost reflective than what we have now.</p> <p>There will however be a reduction in the buy sell spread (which is not the same as an improvement in cost reflectivity). LEGs with unpredictable output should be able to achieve a better price for their output. The economic viability should therefore improve following the implementation of P78 removing the defect the mod seeks to address</p> <p>If a truly cost reflective price can be derived then it should apply to all to allow competition to develop. It is inappropriate that certain sectors of the market enjoy a more neutral price.</p>
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>	No	<p>No, a MW of imbalance is a MW of imbalance. The charge or payment to the SO is the same regardless of who causes it.</p>
5.	<p>Do you believe that implementation of P95 or the potential alternative will ameliorate:</p> <p>(xxv) any effects identified in Q3 and Q4?</p> <p>(xxvi) the other barriers detailed in the Modification Proposal? Please give rationale.</p>	No	<p>LEGs will still be exposed to a potentially volatile reverse price and imbalance risk. This modification does not change how that risk is managed.</p> <p>LEGs will still have to negotiate with suppliers</p>

Q	Question	Response	Rationale
6.	<p>Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.</p>	Depends	<p>The answer depends on whether the LEG's output is predictable or unpredictable. Where output is unpredictable, there will be difficulties in managing imbalance and selling output. LEGs with predictable output face the same problems as any other BSC party.</p>
7.	<p>Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?</p>	Yes	<p>It will result in reduced RCRC creating a cross subsidy from BSC parties that are able to predict their output and balance their positions to those that aren't.</p> <p>Currently, LEGs can extract most value from embedded benefits if the output is sold to a BSC party in the same GSP group with sufficient demand to offset the embedded generation. Since these BSC parties are able to offer the most attractive prices to LEGs, they are have an unfair advantage when it comes to capturing the benefits of reduced imbalance exposure under P95. The mod will therefore have an adverse impact on BSC parties (non suppliers) that cannot currently capture all of the embedded benefits.</p>

Q	Question	Response	Rationale
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	<p>The favourable treatment that will be applied to LEGs will not promote competition in the generation of electricity (objective c).</p> <p>Allowing a fixed quantity of imbalance that is not related to output will not encourage BSC parties to balance. This will be to the detriment of the efficient, economic and coordinated operation of the Transmission System (objective b)</p> <p>The definition report indicates that the use either of the LE Account or Neutral Band options will lead to large central system development costs. This cost may counteract any improvement in the implementation and administration of the BSC arrangements (objective d)</p>
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	See response to Q8.
10.	Do you have any further comments on P95 that you wish to make?	No	

P95_ASS_017 – 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 P95, contained in your notes of 8th November 2002 we have the following comments to make concerning the ten questions posed:-

Q1 Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline?

Yes, to maintain consistency in terms of the cashout price definition used.

Q2 Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method?

No, as the LEG Neutral Band option will reduce BSC Party's incentive to balance and it will be more open to gaming compared to the LEG Account option.

Q3 Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):

- a) totally, or nearly totally cost reflective?
- b) more cost reflective?
- c) no change in cost reflectivity?
- d) less cost reflective?

(b)

Q4 If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree?

N/A, see answer to Q3.

Q5 Do you believe that implementation of P95 or the potential alternative will ameliorate:

- (i) any effects identified in Q3 and Q4?
- (ii) the other barriers detailed in the Modification Proposal?

We agree with the view that the Code should not be changed to compensate a certain type of plant, even though that plant, by definition, has different characteristic to other types of plant. The core principle of NETA and the BSC is that each party is free to participate. Where they freely choose to be a BSC Party they are free to decide what amount of energy will be credited into their Consumption / Production accounts. If they get that wrong, and it is due to their own actions, or omissions or negligence, then they should be penalized in order to ensure they achieve a balanced position.

Q6 Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output?

No, they are subject to broadly the same risks associated with seeking to balance their Consumption / Production accounts as any other party. It is for them to freely choose to become a Party to the Code. In so doing they accept the benefits of being a Party and must correspondingly accept the risks if they get things wrong. If those risks are, in their view, too great then they are

free not to participate.

Q7 Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?

Yes, it would create a two tier system, that discriminates against certain Parties to the benefit of other Parties.

Q8 Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)

No, for the reasons outlined in our answer to Q6 and Q7 above.

Q9 Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)

No, for the reasons outlined in our answer to Q6 and Q7 above.

Q10 Do you have any further comments on P95 that you wish to make?

We believe that Modification P98, in its Original and Alternative form, should not be made.

Regards

Garth Graham
Scottish & Southern Energy plc

P95_ASS_018 – BP Gas Marketing

Respondent:	<i>Ian M. Mullins</i>
BSC Party	Yes
No. of Parties Represented	2
Responding on Behalf of	<i>BP Gas Marketing Limited Great Yarmouth Power Limited</i>
Role of Respondent	<i>Regulatory Advisor</i>

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	No	Offers the Exemptible Generation Sector a single price cash-out while other BSC parties have to endure the current scheme.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	No	LEG Neutral Band is more open to gaming and reduces the incentive on parties to balance.
3.	Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices): a) totally, or nearly totally cost reflective? b) more cost reflective? c) no change in cost reflectivity? d) less cost reflective? Please give rationale.	B	There is a reduction in the pricing spread, and less incentive for parties to contract long.

Q	Question	Response Error! Bookmark not defined.	Rationale
4.	If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.	Yes	Exemptible Generation cannot manage the disproportionate charges they receive that do not reflect their effects on the system.
5.	Do you believe that implementation of P95 or the potential alternative will ameliorate: (xxvii) any effects identified in Q3 and Q4? (xxviii) the other barriers detailed in the Modification Proposal? Please give rationale.	Yes / No	While changes that support the BSC objectives are encouraged, we would not wish to see these changes disbenefit some of the BSC parties.
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.	Yes	Exemptible Generating Plant mainly access the BM via contractual positions with Suppliers, and so cannot control their risk exposure and imbalance costs. The lack of choice that EGPs are faced with means that it is difficult of them to leverage the full value for their power. It should be noted that the nature of the market to be continually long on excess product, further erodes the value that buyers are willing to place on the output from EGPs.
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	Different cash-out regimes would NOT encourage parties to balance as the incentives to the parties would differ according to their asset mix. To this end there could be a potential negative impact on BSC parties that do not have EGPs.
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	The ability of P78 to provide cost-reflectivity on implementation is questionable. As P95 depends on the prices that result from P78, the ability of P95 to deliver "the efficient, economic and co-ordinated operation" is also questionable.

Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	Yes	The increased competition in generation will be beneficial to the promotion of competition in the purchase of electricity.
10.	Do you have any further comments on P95 that you wish to make?	Yes	We recognise the plight of EGPs under NETA, and agree that they should receive fair treatment under the arrangements. The issue at hand is that we do not believe it is fair to the other participants in the industry if the help that EGPs receive is at the expense (and the cost) of the rest of the industry.

P95_ASS_029 – LE Group

Respondent:	<i>Name</i> LE Group
BSC Party	Yes
No. of Parties Represented	8
Responding on Behalf of	P London Electricity Group Plc, London Electricity Plc, Jade Power Generation Ltd, Sutton Bridge Power Ltd, West Burton Power, London Power Network Plc, Eastern Power Network Distribution Ltd and ECS.
Role of Respondent	<i>(Supplier/Generator/ Trader / – please state)</i>

Q	Question	Response	Rationale
1.	Do you agree that the P78 Reverse Price is more appropriate as a Neutral Price for P95 than the SSP/SBP average defined in the Modification Proposal, under the P78 baseline? Please give rationale.	Yes	We do not support the concept of differential treatment of LEGs as 1MWh of imbalance (in the same direction with respect to market length) should be valued equally irrespective of what type of party incurs the imbalance. Introducing “special rules” for different categories of party provides distortions in what should be a competitive market. In response to question 1 it is difficult to provide an answer as the reverse price in P78 has yet to be defined. Conceptually, were the reverse price in P78 reflective of short-term energy costs (of which we are doubtful) then yes it would be more appropriate to use it than an average of SSP and SBP.
2.	Do you agree that the LEG Neutral Band is a more appropriate implementation method for P95 than the LEG Account method? Please give rationale.	Yes	On balance, we prefer the LEG Neutral Band method. We feel that the combination of higher implementation costs, a greater administrative burden and additional contract notification associated with the ‘LEG Account’ method make this less attractive.

Q	Question	Response	Rationale
3.	<p>Do you believe that the baseline cash-out prices, once P78 has been implemented, are likely to be (compared with the pre-P78 cash-out prices):</p> <p>a) totally, or nearly totally cost reflective?</p> <p>b) more cost reflective?</p> <p>c) no change in cost reflectivity?</p> <p>d) less cost reflective?</p> <p>Please give rationale.</p>	C	<p>It is very difficult to say with any certainty as the calculation of the reverse price for P78 has yet to be defined.</p> <p>P78 retains the following problems:</p> <ul style="list-style-type: none"> • pollution of the main price with system actions • erratic inclusion / exclusion of system prices in the main price depending on whether an action is taken in the Balancing mechanism or via a PGBT or other forward trade and deemed system and excluded from prices . • the assumption that a trade in a power exchange is reflective of the short-term cost of energy when all it actually reflects is the price agreed between two parties one of whom might be a distressed seller or buyer • the reverse price is open to gaming especially in periods of low power exchange liquidity • an arbitrary liquidity threshold is going to be set when determining whether data from an MIDP is going to be included or excluded from the reverse price <p>We would argue that c) no change in cost reflectivity is the answer as we do not believe that either the pre-P78 baseline or the post-P78 baseline deliver cost-reflective cashout prices</p>
4.	<p>If you believe that prices will not be cost reflective, do you believe that non-cost reflective charges differentially and adversely affect the Exemptable Generators P95 is intended to assist, to a significant degree? Please give rationale.</p>		<p>If a proposed change is not cost reflective, it should not be applied irrespective of whether it beneficially or adversely affects a particular type of party.</p> <p>Non-cost reflective charges do not differentially and adversely affect Exemptable Generators any more or less than other types of party.</p>

Q	Question	Response	Rationale
5.	Do you believe that implementation of P95 or the potential alternative will ameliorate: (xxix) any effects identified in Q3 and Q4? (xxx) the other barriers detailed in the Modification Proposal? Please give rationale.	No	We assume this question is directed from the perspective of the Exemptable Generating Plant. In this case, if the Exemptable Generating Plant perceive these difficulties with the Balancing Mechanism, then it would seem that their proposals may ameliorate them.
6.	Do you believe that Exemptable Generating Plant have special difficulty in managing their imbalance? If so, has that had an adverse effect on their ability to sell their output? Please give rationale.	No	I depends on the predictability of the output of the Exemptible Generating Plant.
7.	Do you believe the implementation of P95 or the potential alternative would have an adverse impact on any parties? If so who and why?	Yes	We believe the costs of implementation would be significant, and would not outweigh any potential gains that a small number of parties may have in prospect
8.	Do you believe that the Modification Proposal P95 better facilitates achievement of the Applicable BSC Objective(s)? Please give rationale and Objective(s)	No	
9.	Do you believe that the potential alternative Modification as detailed in the consultation document better facilitates achievement of the Applicable BSC Objectives? Please give rationale and Objective(s)	No	
10.	Do you have any further comments on P95 that you wish to make?	No	