Responses from P212 Report Phase Consultation

Consultation Issued on 19 November 2007

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Drax Power Ltd	P212_dMR_01	1	0
2.	National Grid	P212_dMR_02	1	0
3.	Scottish Power	P212_dMR_03	7	0
4.	InterGen	P212_dMR_04	4	0
5.	British Energy	P212_dMR_05	5	0
6.	E.ON UK	P212_dMR_06	5	0
7.	Uskmouth Power	P212_dMR_07	1	0

P212 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Stuart Cotten
Company Name:	Drax Power Limited
No. of BSC Parties Represented	One
Parties Represented	Drax Power Limited
No. of Non BSC Parties Represented	None
Non Parties represented	None
Role of Respondent	Generator
Does this response contain confidential information?	No

Q	Question	Response [1]	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P212 **should not** be made? Please give rationale.	Yes	We agree with the Panel that P212 would **not** better facilitate the BSC than the current baseline for the following reasons: • A decrease in volatility of the Main Imbalance Price will reduce the incentive for Parties to balance, which will increase required SO actions and result in a less efficient system (Objective B); • Parties may choose to purposely imbalance due to imbalance prices appearing more favourable than market prices, which will further increase required SO actions (Objective B); • The arbitrary nature of the +/- 5% adjustment creates a system that is less cost reflective of the actions taken by the SO in a given period, therefore imbalanced Parties will contribute a smaller percentage of the costs incurred by the SO with the remainder being socialised; this would be detrimental to competition (Objective C).

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Q	Question	Response [1]	Rationale
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P212? Please give rationale.	Yes	Should the Authority decide to approve the implementation of P212, the provisional Implementation Date appears to be reasonable.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	
4.	Considering the updated information regarding the changes to Settlement Report SAA – I014, as outlined in section 3 of the draft Modification Report, would P212 impact your organisation? If yes, please provide a description of the impact, any costs incurred, and the implementation timescales required.	Yes	A number of internally and externally developed systems would require a degree of modification. It is believed that the work and costs associated with such modifications would be fairly small. With regards to timescales, it is believed that the necessary changes are achievable within the timescales set by the Implementation Date.
5.	Are there any further comments on P212 that you wish to make?	Yes	As we have mentioned in previous responses, the introduction of a methodology that uses an arbitrary +/- 5% adjustment to determine imbalance prices only moves cash-out pricing further away from reflecting the true energy balancing costs of the SO. It remains our view that the remaining costs that would be socialised through BSUoS would decrease the accountability of the imbalanced Parties and prove detrimental to competition.

Please send your responses by **12:00 on Monday 3 December 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P212 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Chris Stewart on 020 7380 4309, email address name.name@elexon.co.uk.

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P212 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Rob Smith
Company Name:	National Grid
No. of BSC Parties Represented	1
Parties Represented	
No. of Non BSC Parties Represented	
Non Parties represented	
Role of Respondent	Transmission Operator, GB System Operator
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P212 **should not** be made? Please give rationale.	Yes	The results provided by the behavioural modelling carried out by the modification group, whilst not conclusive in nature, does provide a level of insight into the probable scenarios of market behaviour that may exist under a P212 environment. The potential for this modification to produce volatile imbalance prices, unrepresentative of the level of energy scarcity and the cost of System Operation, as identified by the modelling work of the modification group, leads us to the conclusion that this modification will not better facilitate BSC objective B. In that this modification appears to incentivise parties to think of their behaviour in this market as a self contained commercial game regardless of other external consequences such as the state of the market and the relative demand/supply position, coupled with the potential incentive for parties to operate on the fringes of acceptable behaviour, we cannot see any evidence to suggest that this modification will better facilitate BSC objective C.

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Q	Question	Response	Rationale
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P212? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Considering the updated information regarding the changes to Settlement Report SAA – I014, as outlined in section 3 of the draft Modification Report, would P212 impact your organisation? If yes, please provide a description of the impact, any costs incurred, and the implementation timescales required.	Yes	National Grid utilises the SAA-IO14 data in a number of its business processes and as such this information is loaded into a number of our IS systems. As noted in our Transmission Company response an initial estimate of the cost of implementing this modification is approximately £80K with a lead time of approximately 7 months. This cost is entirely due to the amendment of our IS systems to capture the amended SAA-IO14 file structure and data items.
5.	Are there any further comments on P212 that you wish to make?	No	

Please send your responses by **12:00 on Monday 3 December 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P212 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

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P212 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	Man Kwong Liu
Company Name:	
No. of BSC Parties Represented	7
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).* ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd, CRE Energy Limited
No. of Non BSC Parties Represented	0
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributor / other – please state* [1]*)* Supplier/Generator/ Trader / Consolidator / Exemptable Generator /distributors
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P212 **should not** be made? Please give rationale.	**Yes**	ScottishPower agree with the recommendation that P212 should not be made and support the views that:- ▪ This modification will be less cost reflective and less incentive to balance which could give rise to greater SO actions and costs. Also, the reduced penalty on imbalance potentially could mean less concern with ensuring plant reliability which could give rise to potential supply security issue. These would be detrimental to Objective (b). ▪ With its less cost reflectivity, this modification gives rise to cross subsidies with imbalanced parties not paying the appropriate costs due

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

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			to their imbalances. Furthermore, it creates an environment for potential price manipulation (within the rules) as well as reactive behaviour, resulting in other potential price distortions. There are also concerns that for a low materiality defect, the industry could change the arrangement so fundamentally that could undermine a lot of investments (such as demand forecast and trading systems) by existing participants. Such situation gives uncertain signal to the market. These factors do not promote Objective (c). ▪ On Objective (d) – efficient administration, while one accepts this arrangement appears simpler to operate, it could ultimately prove more costly due to more subsequent modifications and regulatory oversight requirement. This potential and the above shortcomings outweigh any potential efficiency saving in administration.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P212? Please give rationale.	**Yes**	Not withstanding the fact that ScottishPower do not believe this modification should be implemented, but if it were, in view of its impact to the central systems, SO and parties, we agree that the provisional implementation date is reasonable.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	**Yes**	ScottishPower agree that the legal text appears appropriate.
4.	Considering the updated information regarding the changes to Settlement Report SAA – I014, as outlined in section 3 of the draft Modification Report, would P212 impact your organisation? If yes, please provide a description of the impact, any costs incurred, and the implementation timescales required.	**No**	As previously mentioned during the assessment stage, ScottishPower expect only minor process and procedural change.
5.	Are there any further comments on P212 that you wish to make?	**Yes**	ScottishPower find that the pursuance of this modification and indeed P211 significantly diverged from previous Authority views on pricing modifications (P194 and P205). While we believe P194 did not better the applicable BSC objectives due to its penal nature, this modification appears to go to the other

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			extreme at the expense of incentive to balance and cost reflectivity. Existing participants have already made significant investment to ensure good balancing operation. Such change in principles and arrangement could undermine their position, creating significant uncertainty in the industry and detrimental to competition. Furthermore, with such a fundamental change in pricing arrangement, the values of parties' existing energy contracts could be significantly eroded which could have knock-on effects.

Please send your responses by **12:00 on Monday 3 December 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P212 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Chris Stewart on 020 7380 4309, email address name.name@elexon.co.uk.

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P212 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	*Name*
Company Name:	**Scott Keen**
No. of BSC Parties Represented	**4**
Parties Represented	**RPCL, SPAL, CECL, IETS**
No. of Non BSC Parties Represented	**0**
Non Parties represented	
Role of Respondent	**Generator**
Does this response contain confidential information?	**N**

Q	Question	Response [1]	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P212 **should not** be made? Please give rationale.	No	We remain confident that the fixed percentage of 5% premium / discount on Market Reference Price would facilitate more accurate and reliable forecasting of potential cash out values and greatly increase the transparency of the price calculations. It would also make system prices less punitive when compared to the current Code baseline which would encourage new entrants into the market so *promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity.*
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P212? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	

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Q	Question	Response [1]	Rationale
4.	Considering the updated information regarding the changes to Settlement Report SAA – I014, as outlined in section 3 of the draft Modification Report, would P212 impact your organisation? If yes, please provide a description of the impact, any costs incurred, and the implementation timescales required.	Yes	Further analysis will be conducted regarding costs associated with P212 however implementation can be achieved within the proposed timescales.
5.	Are there any further comments on P212 that you wish to make?	No	

Please send your responses by **12:00 on Monday 3 December 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P212 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Chris Stewart on 020 7380 4309, email address name.name@elexon.co.uk.

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P212 REPORT PHASE CONSULTATION QUESTIONS – MAIN IMBALANCE PRICE BASED ON MARKET REFERENCE PRICE

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	*Martin Mate*
Company Name:	British Energy
No. of BSC Parties Represented	5
Parties Represented	*British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, British Energy Direct Ltd, Eggborough Power Ltd, British Energy Generation (UK) Ltd*
No. of Non BSC Parties Represented	-
Non Parties represented	-
Role of Respondent	*Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P212 **should not** be made? Please give rationale.	Yes	We support the Panel's provisional recommendation that proposed modification P212 should not be made. Imbalance prices under the BSC should (1) be cost-reflective; (2) meet BSC objectives and (3) be transparent. Separating imbalance price from the cost of actual balancing actions taken at short notice by the System Operator will not deliver an efficient outcome, and could deliver perverse outcomes as indicated by the modification group's further analysis. Incentives on parties to manage their own imbalances would be reduced. Opportunities and incentives would be created to influence imbalance prices and imbalance itself for relative gain rather than to achieve overall efficient balancing. BSC Objective (b) relating to efficient and economic system operation would not be promoted. BSC Objective (c) relating to competition

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			would not be promoted because parties would not incur costs reflecting the cost of actions taken by the System Operator to meet their imbalance, so cross-subsidies would exist. These disadvantages far outweigh the benefit of simplicity. Simplicity is desirable provided the cost of inefficiencies due to approximations inherent in simplicity are not significant. In this case: a. We do not consider the non-quantified and subjective benefits of simplicity outweigh the obvious inaccuracy in cost-reflectivity. This is particularly true in a wholesale market where achievement of energy requirements should be the core activity. b. We believe the current arrangements are simple in principle: the costs of actions actually taken by the system operator on behalf of parties which are in imbalance are used to determine the imbalance price. c. Simplicity in itself is not a BSC objective.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P212? Please give rationale.	Yes / No	Given the potential impact on balancing behaviour, imbalance prices, and BSUoS of such a significant change, we think plenty of advance notice and implementation at a major financial boundary would be sensible. 1 April 2009 or 01 October 2009 would be better than the dates proposed in this respect.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	
4.	Considering the updated information regarding the changes to Settlement Report SAA – I014, as outlined in section 3 of the draft Modification Report, would P212 impact your organisation? If yes, please provide a description of the impact, any costs incurred, and the implementation timescales required.	Yes	The SAA-I014 report contains key information for settlement reporting and validation. Changes to the format and content of the SAA-I014 report would require changes to internal systems used to load and process the data. This carries a significant overhead in terms of redesign, documentation, testing and implementation within integrated internal systems. A lead time of at least 3-6 months would be required, with cost depending on lead time.
5.	Are there any further comments on P212 that you wish to make?	Yes / No	No comments further to those given in this response and our response to the previous P212 assessment consultations.

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P212 REPORT PHASE CONSULTATION QUESTIONS

Respondent:	Paul Jones
Company Name:	E.ON UK plc
No. of BSC Parties Represented	5
Parties Represented	Citigen London Ltd, Economy Power, Enfield Energy Centre, Powergen Retail Ltd, E.ON UK plc
No. of Non BSC Parties Represented	-
Non Parties represented	-
Role of Respondent	Supplier, Generator, Trader, Consolidator, Exemptable Generator
Does this response contain confidential information?	No

Q	Question	Response [1]	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P212 **should not** be made? Please give rationale.	Yes	As we have mentioned in previous responses the mechanism defined under P212 is clearly inappropriate. If a charge is to be levied in proportion to a party's level of imbalance then it has to be somehow related to the costs that have been caused as a result of that imbalance. If it does not then it represents a penalty. The P212 mechanism cannot result in a price that reflects the costs caused by the parties in imbalance. Indeed it is designed to avoid doing so. Therefore, under P212 parties will have incorrect incentives to balance. Whether or not these incentives are too weak or too strong will depend on the level of uplift/discount set around the market price and the particular circumstances pertaining in a particular half hour. On a few isolated occasions incentives may turn out to be broadly correct. However, this would be coincidental and not by design. Inappropriate cost allocation distorts competition as it sets up cross subsidies

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			between participants. Therefore, P212 would serve to frustrate competition in electricity generation and supply. It would consequently lead to inefficient outcomes in the market. Therefore, objectives b) and c) would be undermined by its implementation. Our attachment to the response to the assessment consultation gives more detail about why we believe that the P212 mechanism is incorrect.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P212? Please give rationale.	Yes	Although of course we do not consider that the modification should be implemented at all.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Considering the updated information regarding the changes to Settlement Report SAA – I014, as outlined in section 3 of the draft Modification Report, would P212 impact your organisation? If yes, please provide a description of the impact, any costs incurred, and the implementation timescales required.	Yes	There will be an effect on our systems. However, our objection to the modification is based more on fundamental principles and the detrimental effects that it would have on competition and efficiency.
5.	Are there any further comments on P212 that you wish to make?	No	

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P212 REPORT PHASE CONSULTATION QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

Respondent:	*Rebecca Williams*
Company Name:	Uskmouth Power
No. of BSC Parties Represented	1
Parties Represented	
No. of Non BSC Parties Represented	0
Non Parties represented	
Role of Respondent	*Generator*
Does this response contain confidential information?	*No*

Q	Question	Response [1]	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P212 **should not** be made? Please give rationale.	Yes	The modification does not better facilitate the relevant objectives and should not therefore be made. It creates an arbitrary price based on a % uplift that does not necessarily relate to the cost of the energy required to balance the system. We agree with the group's analysis that the modification does not better facilitate the applicable BSC objectives, notably b, c and d.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P212? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	

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Q	Question	Response [1]	Rationale
4.	Considering the updated information regarding the changes to Settlement Report SAA – I014, as outlined in section 3 of the draft Modification Report, would P212 impact your organisation? If yes, please provide a description of the impact, any costs incurred, and the implementation timescales required.	Yes	We may have to make some minor system changes.
5.	Are there any further comments on P212 that you wish to make?	No	

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