Responses from P211 Assessment Report Consultation

Consultation Issued on 15 August 2007

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	E.ON UK Energy Services Limited	P211_AR_01	0	1
2.	RWE Npower	P211_AR_02	11	0
3.	SmartestEnergy	P211_AR_03	1	0
4.	Scottish and Southern Energy plc.	P211_AR_04	6	0
5.	Drax Power Limited	P211_AR_05	1	0
6.	The Renewable Energy Company Ltd	P211_AR_06	1	1
7.	EDF Trading Limited	P211_AR_07	1	0
8.	Teesside Power Limited	P211_AR_08	2	0
9.	EDF Energy Plc	P211_AR_09	9	0
10.	International Power	P211_AR_10	5	0
11.	Airtricity	P211_AR_11	1	0
12.	BizzEnergy Ltd	P211_AR_12	1	0
13.	Uskmouth Power Limited	P211_AR_13	1	0
14.	CHP Association	P211_AR_14	0	1
15.	Scottish Power	P211_AR_15	7	0
16.	E.ON UK plc	P211_AR_16	7	0
17.	British Energy	P211_AR_17	5	0
18.	Centrica	P211_AR_18	5	0
19.	National Grid	P211_AR_19	1	0
20.	Intergen	P211_AR_20	4	0
21.	Immingham CHP LLP	P211_AR_21	2	0

P211 ASSESSMENT PROCEDURE 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:	*Alastair Barnsley*
Company Name:	*E.ON UK Energy Services Limited*
No. of BSC Parties Represented	*0*
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	*1*
Non Parties represented	*E.ON UK Energy Services Limited*
Role of Respondent	*Party Agent*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	These proposals will have no direct impact on our activities
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	N/A
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Neutral	These proposals will have no direct impact on our activities
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Neutral	These proposals will have no direct impact on our activities

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Q	Question	Response	Rationale
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Neutral	These proposals will have no direct impact on our activities
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	No	
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Neutral	These proposals will have no direct impact on our activities
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Neutral	These proposals will have no direct impact on our activities
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	No	

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment

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Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

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P211 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	**Richard Jones**
Company Name:	**RWE Npower**
No. of BSC Parties Represented	**11**
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).* **RWE Trading GmbH, RWE Npower plc, Great Yarmouth Power Ltd, Npower Cogen Trading Ltd, Npower Commercial Gas Ltd, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd**
No. of Non BSC Parties Represented (e.g. Agents)	**None**
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 / Distributors / other – please state* [1] *)* **Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent**
Does this response contain confidential information?	**No**

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes/No	There is no doubt that cash out prices are influenced by activities other that straightforward energy balancing during certain settlement periods. However, the scale and extent of any problems in setting cash out prices is not immediately transparent to the market as a whole and further work may be required to demonstrate that the impact of these actions is significant.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	A more simplistic methodology for calculating cash out prices may be desirable. However, 'simplicity' should not be delivered at the expense of 'cost-reflectivity'. It is important that the costs associated with imbalance, are reflected on to those Parties who give rise to the imbalance.

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

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	We believe that P211 would not better facilitate the Applicable BSC Objectives for the following reasons: ▪ P211 methodology assumes the SO has perfect foresight – this is not realistic ▪ The EPUS calculated under P211 includes actions that in reality may be impossible for the SO to take ▪ P211 gives no consideration to dynamic parameters We believe the above reasons all serve to dampen cash out prices, they become less cost reflective and give weaker and less accurate signals to Parties than the current methodology, particular at times of system stress.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	Although we note that the Alternative Modification 211 attempts to take into account dynamic parameters we believe the Alternative would not better facilitate the Applicable BSC Objectives. Again, the first 2 reasons detailed above apply and with regards to the 'dynamic parameters' rules used under the Alternative we do not believe they are substantially robust.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Yes	We believe that the inclusion of dynamic parameters is an important factor that should be considered. However, the rules used to include dynamic parameters must be robust and must be consistent for all scenarios. These rules should take into account the actions that the SO has actually undertaken in energy balancing, for example I making reserve available for dispatch.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	We believe that market participants will be less incentivised to balance as cash out prices will be dampened in relation to current methodology and as a result far less penal. In turn this will put more pressure on the SO who will have to take more actions than it does currently. With cash out prices being more benign the SO will have to recover its costs elsewhere (BSUoS).

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Q	Question	Response	Rationale
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	Pragmatic approach.
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	Pragmatic approach.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	No	

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

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P211 ASSESSMENT PROCEDURE 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:	*Colin Prestwich*
Company Name:	*SmartestEnergy*
No. of BSC Parties Represented	*1*
Parties Represented	*SmartestEnergy*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*Supplier/Trader / Consolidator*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	The extent of the "defect" was presented by NGT at the Ofgem industry meeting on 30th March as being, for the month of November 2006, SBP 9% higher than ideal and SSP 7% lower than ideal. This has led certain industry commentators to talk about "massive pollution." NGT, on the other hand, have since stated in the Modification Group that they think the answer is actually somewhere between the stated percentages and zero. In either event, we do not consider this to be massive pollution, especially when it is taken into account that the costs of reserve (which would not be necessary if everyone was in perfect balance) are not included in the current definition of energy costs. There is, however, no "correct answer" when trying to split out energy and system costs. The important thing here is to ensure that the monies changing hands are more or less reflective of the costs. We would say that at present they probably are; P78 introduced the most important change to make imbalance prices more realistic, but we also see the other pricing

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Q	Question	Response	Rationale
			modifications over the years as good refinements which have brought about an overall satisfactory arrangement. The question we are faced with is whether this should be sacrificed for greater transparency/simplicity.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	Simplicity and cost reflectivity are both important desirable features of the arrangements. We believe that greater simplicity can be achieved so long as the costs are broadly in line with those being incurred by the system operator. This means that if the arrangements remove the link between imbalance prices and the costs it is extremely important to review whether the resulting prices are reflective of costs on a regular basis.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	The main proposal is designed to reduce imbalance prices and reduce the accuracy of their calculation whilst offering a small amount of additional simplicity/transparency. We are inclined to believe that the reduction in prices goes further than the inaccuracy of imbalance prices indicated by NGT. We would also question the assumption that it is correct simply to remove actions which have a dual purpose i.e. are used for energy and system; if the system issue was not present, clearly some form of energy action would still be required.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Can't say, possibly yes	This approach has the advantage of being slightly more transparent than the current arrangements, whilst being more accurate than the main proposal. The further analysis looks more realistic than the results under the main proposal. However, it is still difficult to know whether this is in line with NGT's view of how the energy/system split should look.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Yes	This approach has the advantage of greater accuracy than the main proposal.

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Q	Question	Response	Rationale
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	Clearly there would be less of an incentive to balance. It is impossible to say whether this would be significant.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes	A full unconstrained schedule. It has been stated that this would not be possible in the reporting timescales of price reporting but we would question why the principle of timely reporting is considered sacrosanct and has not been compared with other principles which are being promoted/sacrificed such as transparency and accuracy.
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	Given the conclusion that there are no advantages to combining P211 with any other release and this modification could significantly reduce imbalance costs, it may be worth considering whether the implementation should be timed to occur on a date convenient for contractual rounds i.e. 1st April or (less desirably) 1st October.
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	But only on the basis of the evidence provided.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	Yes	The nature of the problem here is somewhat qualitative; there is a variety of principles being considered which cannot all be achieved completely. Any new arrangement is not likely to satisfy more principles, merely alter the balance of their relative importance. Sadly, this has not been reflected in the approach thus far.

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Respondent:	*Andrew Colley*
Company Name:	*Scottish and Southern Energy plc.*
No. of BSC Parties Represented	*6*
Parties Represented	SSE Energy Supply Ltd., SSE Generation Ltd., Keadby Generation Ltd., Medway Power Ltd., Southern Electric Power Distribution plc., Scottish Hydro-Electric Power Distribution Ltd.
No. of Non BSC Parties Represented (e.g. Agents)	*0*
Non Parties represented	
Role of Respondent	*Supplier/Generator/Trader/Distributors*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	Undoubtedly it has been proven that on occasion, "system" actions, or more precisely constraint actions, have affected energy imbalance prices and introduced costs that are not reflective of the short-term cost of energy balancing. SSE contends that constraint actions seem the most appropriate area to concentrate upon as these actions appear to be the principle cause of concern driving this proposal. This particular effect was prevalent in the months immediately following the introduction of BETTA, which also coincided with record wholesale gas prices. SSE do not accept the definition of "energy plus" as an appropriate definition in determining those actions that should or should not be included as part of short term energy balancing costs feeding into energy imbalance price equations. For example SSE firmly believe that intra half hour actions, such as TV pickups, are appropriate for inclusion in the price equation. SSE note the heavy caveats provided by the SO in presenting an "energy plus" analysis to

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Q	Question	Response	Rationale
			industry at the Ofgem led workshop at the start of the year. Notwithstanding the above SSE remain concerned that the extent of the issue has not been proven, whilst accepting that providing such proof is very difficult to achieve. It is our view that, whilst always possible to highlight individual periods as anomalies, this does not prove that the issue is substantial. Our perception remains that actions taken by System Operator (SO) in the forward market have significantly helped in alleviating the inappropriate effects of Cheviot constraint costs within the imbalance price calculation. We do not perceive the current level of error that may be entering the imbalance price equation as significant and are prepared to continue to accept it as a reasonable and appropriate proxy of the short-term costs incurred by the SO to balance the system.

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Q	Question	Response	Rationale
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	SSE firmly believe that energy imbalance prices should continue to provide a proxy of the short-term costs of the SO in balancing the system and that cash-out should reflect the opportunity costs of balancing. As such it should reflect the real actions taken by the SO to resolve energy imbalance in the Balancing Mechanism and in forward markets through energy BSAD. Such costs should subsequently continue to be targetted upon those that impose them through being out of balance. These principles were a cornerstone of the NETA/BETTA arrangements and, given the features of NETA arrangements, continue to remain key concepts in our opinion. We note with interest that the Authority's response to virtually all pricing modification proposals since the implementation of NETA has reasserted these principles as key. SSE believe that the above principles are the simplest concepts of all to understand, in the context of economic efficiency, and that any deviation would in practice create a more artificial principle which could be argued to be more complex. We prefer simplicity of concept as opposed to simplicity of administration. Complexity in the administration of a simple concept is not in itself a barrier to competition as the rules governing the administrative arrangements are publicly available and accessible and can be assessed by new entrants.

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	Objective (b). This proposal introduces the prospect of bids and offers entering the price stack that were neither accepted nor were capable of being delivered for the period in question. This would have the effect of softening imbalance prices, reducing SBP and increasing SSP. SSE would be concerned by that softening energy imbalance prices, unduly limiting price volatility and removing the link being prices and the actual costs faced by the SO to balance the system, traders may be presented with a reduced incentive to trade to minimise their imbalance exposure. An erosion in these incentives and the subsequent increased level of imbalance volume being held into the BM by traders likely to follow, would increase the costs to the SO to balance the system. Thus the modification acts counter to objective (b) in our view, by increasing the likelihood of greater costs being incurred by the SO to balance the system. Additionally SSE would be concerned that plant loss post Gate Closure and the potentially high cost incurred by the SO to cover this loss, would not be accommodated at all within the proposal. SSE would be concerned that dampened price signals for unreliable plant would reduce short-term incentives to trade out imbalances and reduce long-term incentives to invest in reliable plant technology, the second of these potentially creating a long-term threat to security of supply. To this extent, SSE believe that the modification acts counter to objectives (b) and (a) by increasing the likelihood of greater costs being incurred by the SO to balance the system and by creating a long-term threat to security of supply. Objective (c). A fundamental principle of the NETA arrangements when first introduced was the desire to target the actual short-term energy balancing costs incurred by the SO upon those parties in imbalance, who had created the need for those costs to be incurred – a simple polluter pays concept. Parties were thus incentivised to invest in plant reliability and/or improved demand forecasting capability in order to minimise their exposure to these costs.

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Q	Question	Response	Rationale
			This proposal moves too far away from that fundamental principle by removing the link to the actual costs borne by the SO and creating an idealised in-price-order stack. This stack would include plant that were neither accepted by the SO nor capable of being accepted by the SO due to technical constraints. This would have the effect of dampening the prices meaning that inappropriate prices would be passed through to those parties causing the imbalance on the system. This would penalise those parties that have been prepared to or are willing to invest in plant reliability and demand forecasting technology and creates an inappropriate cross-subsidy to those parties that have not made a similar investment. This distorts rather than promotes competition in our view and acts contrary to objective (c). SSE would also be concerned that the proposed modification would be more susceptible to single parties influencing prices to their own favour through the redeclaration of prices on plant that cannot feasibly deliver the volume. This would act contrary to objective (c). Objective (d). SSE remain neutral on whether this modification better facilitates objective (d). Whilst the administrative arrangements would on the face of it seem simpler to understand and maintain were this modification required, we are convinced that further changes would be required to this modification in the future attempting to address the flaws identified in previous arguments. Thus it is not clear to us what the final cost of change would be and its comparative merit to the current baseline.

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Q	Question	Response	Rationale
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	For the same reasons as described in our response to Question 3, but to a lesser extent. Additionally, SSE are concerned that some of filter rules applied to exclude infeasible volume result in extreme and spurious pricing outcomes which are not reflective of the system economics and are merely a result of the pricing calculation excluding too much volume from the stack. Also, the alternative cannot be argued to better facilitate objective (d) as it is at best equally as complex to administer as the current rules and arguably more complex.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	SSE are concerned that some of filter rules applied to exclude infeasible volume result in extreme and spurious pricing outcomes which are not reflective of the system economics and are merely a result of the pricing calculation excluding too much volume from the stack. Were this issue to be addressed, then SSE would favour the Alternative Modification when compared to the Proposed Modification. We believe that the Alternative does make an attempt to assess the feasibility of delivering volume to the SO associated with Bids and Offers, through the application of filters that reflect key dynamic parameter constraints, albeit on a relatively crude and estimated basis.

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Q	Question	Response	Rationale
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	See Question 3. Above. To reiterate in summary :- SSE would be concerned that inappropriate price signals would be sent to the forward market to balance and trade out their positions. This would reduce trading activity and result in larger open positions being taken into the BM. This in turn would impose a greater cost upon the SO to balance the system and an inappropriate targeting and recovery of those costs.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	The only other potential solution is to consider the production of a fully functioning Ex-Post Unconstrained Schedule (creating an optimised dispatch schedule), utilising a pre-determined optimisation breakpoint (perhaps day-ahead, perhaps Gate Closure), taking into account full plant dynamics and feasibility of delivery, whilst also taking into account inter half-hour effects. Clearly such a body of work to produce the necessary rules, analysis and solutions would not lend itself to simplicity and could not be competed in the timescale available for progressing this modification.
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	Notwithstanding the fact that we oppose this modification, if it were to be introduced, then SSE would to maintain prompt price reporting. This arrangement will help to minimise computer processing overheads which will support the goal of minimal impact to prompt price reporting.

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Q	Question	Response	Rationale
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	No	

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Respondent:	Stuart Cotten
Company Name:	Drax Power Limited
No. of BSC Parties Represented	1
Parties Represented	Drax Power Limited
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	n/a
Role of Respondent	Generator
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	At present, we share the view of the Modification Group that a sufficient level of materiality is yet to be established.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	We believe it is important to maintain cost reflectivity in the determination of the main imbalance price. The System Operator should have an incentive to choose the most cost efficient actions. Proposed Modification P211 seeks to establish this. However, creating overly complex solutions may increase barriers to new entrants, which should be a consideration when developing a solution in line with the BSC objectives.

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	We believe that this modification does intend to make the Main Imbalance Price more reflective of energy balancing actions available to the System Operator, thus placing an incentive on the System Operator to be more cost efficient, by removing 'energy plus' actions. However, our main concerns are as follows: • Parties may have less incentive to balance causing more System Operator actions, making the system less efficient (Objective (b)); • If less balancing costs are recovered from imbalanced Parties, then more will be recovered from the industry as a whole (Objective (c)); • Parties may be able to take advantage of using dynamic parameters to influence imbalance prices, which is not good for competition (Objective (c)) • The changes are expensive when the materiality of the defect has not yet been fully established (Objective (d)).
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	Same reasons as above (except for the dynamic parameters concern). The extra rules defined under P211 Alternative make the determination of prices more complex, which raises the following concerns: • Increase barriers to new competition (Objective C); • Involves greater work loads and costs (for the System Operator and Elexon) for little gain, making the system less efficient (Objective D).
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	Whilst attempting to retain the main features of the Proposed Modification, the Alternative appears to be much more complex for little gain.

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Q	Question	Response	Rationale
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	Overall, it would appear that P211 would make SBP lower in short periods and SSP higher in long periods. This may discourage Parties to balance as the cost of not balancing would be less. If this were to happen, this may require the System Operator to take more balancing transactions, making the system less efficient.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	Drax Power Limited does not currently have an alternative solution to suggest to the Modification Group.
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	The approach seems reasonable.
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	Whilst, ideally, the whole stack should be displayed, we have no issues with the smaller stack.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	–

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Q	Question	Response	Rationale
11.	Are there any further comments on P211 that you wish to make?	Yes	We believe that the modification raised by EDF seeks to address the defect with a solution that attempts to maintain the aims of imbalance prices, i.e. cost reflective of the System Operator's required actions, whilst providing the System Operator with an incentive to choose the most cost effective actions. However, we believe that the materiality of the defect is still to be fully established; therefore we remain neutral at this time. We shall continue to monitor the discussion on, and progress of, this modification.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

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P211 ASSESSMENT PROCEDURE 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:	*Philip Catherall*
Company Name:	*The Renewable Energy Company Ltd*
No. of BSC Parties Represented	*1*
Parties Represented	ECOT
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	Company Secretary
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	National Grid's own analysis showed that the current system is heavily polluted by system operator actions and that this has led to the System Buy Price being artificially high and System Sell price artificially low. This will disadvantage smaller suppliers as they are the most exposed to the balancing mechanism.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	There is no point in aiming for cost reflectivity if only a handful of people in the whole industry understand what is happening. At least if the system is simple it is easy for everyone to understand and take rational decisions.

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	The P211 original proposal results in less system pollution of the imbalance price, which must deliver benefits under objective (b) as a distorting cost signal will be removed. Competitive distortions in the current cash-out rules would be reduced, facilitating objective (c). Over the longer-term more equitable cash-out rules should facilitate new entry, also delivering benefits under objective (c).
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Neutral	I have not had time to look at the analysis to back this proposal up.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	See arguments in response to 4 above..
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	There is still an incentive to balance rather than cash out. However, there will be some more certainty that if there is a cash out situation that the costs and revenues will be calculated correctly without system operator pollution.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	

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Q	Question	Response	Rationale
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Neutral	
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	P211 does not however address the costs of within half hour actions.
11.	Are there any further comments on P211 that you wish to make?	Yes	It is disappointing that the modification group has not taken a much closer look at what is the current price stacks. The problems caused by the current tagging approach would be much better understood and could be greatly ameliorated if National Grid were able to develop a method for categorising acceptances as they occur.

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P211 ASSESSMENT PROCEDURE 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:	Vincent Baslé
Company Name:	EDF Trading Limited
No. of BSC Parties Represented	1
Parties Represented	EDF Trading Limited
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	There is a wealth of information available suggesting that imbalance price pollution is a significant problem, and that this is having the effect of sending inappropriate signals to the forward market. National Grid's analysis presented at the cash out working group meeting in March 2007 conclusively shows that the current cash out methodology is not producing anything close to a "clean" energy price. Similar analysis during the assessment of P205 showed similar results.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	Elexon's analysis shows that the proposal will provide more cost reflective prices and therefore send more appropriate signals to the forward market. This will better facilitate Objective B as parties will be able to make more informed decisions about their trading strategies. The proposal may eventually stimulate the development of more financial products in the electricity market including options and swaps by removing the "bad" volatility from prices. This will better facilitate Objective C.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Yes	The additional analysis provided by Elexon on the 23rd of August suggests that prices under the potential alternative with rule 2b will be more cost reflective than the baseline.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	The new analysis provided by Elexon on the potential alternative shows that there is not a great deal of divergence between the P211 proposed prices and those produced by the potential alternative. This suggests that there is not a great deal of benefit in having this additional level of complexity.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	Parties exposed to more cost reflective prices could be expected to make more rational decisions on whether to trade out their position or to take exposure to imbalance prices. We do not agree with the comment in section 3.4 about the ability to identify and prove anti-competitive behaviour because of the data volume involved. The equities markets are regulated by the FSA and the volume of trades made each day is much more substantial than those trades made or submitted in the Balancing Mechanism (the LSE alone has close to 500,000 trades per day).
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	

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Q	Question	Response	Rationale
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	No	

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

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P211 ASSESSMENT PROCEDURE 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:	*Keith Miller*
Company Name:	*Teesside Power Limited*
No. of BSC Parties Represented	*2*
Parties Represented	*Teesside Power Limited, Teesside Energy Trading Limited*
No. of Non BSC Parties Represented (e.g. Agents)	*n/a*
Non Parties represented	n/a
Role of Respondent	*Generator*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	NG confirmed at the cash out review meeting held earlier in the year at Ofgem that 75% of Offers and 25% of Bids that feed into the imbalance price calculation are polluted by other non-energy actions: this represents a significant defect of the present arrangements.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	For a single plant operator such as Teesside Power Limited, simplicity has a number of benefits: whilst there will always be a balance to be struck between complexity and cost reflectivity, we would favour simplicity in the interest of promoting competition.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	The applicable BSC objectives, particularly objective b, are better met if any actions taken by the System Operator which are not energy related are excluded from the calculation of the imbalance cash out prices.

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Q	Question	Response	Rationale
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Yes	For the same reasons as given for the Proposed Modification.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	Because of the adverse effect on promoting effective competition, however, the Alternative Modification is not preferred to the Proposed Modification.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	We see no reason why these solutions will have any impact on market participants' balancing behaviour. Similarly we see no reason for there to be any impact on the SO.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	

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Q	Question	Response	Rationale
11.	Are there any further comments on P211 that you wish to make?	No	

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Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

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P211 ASSESSMENT PROCEDURE 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:	David Lewis
Company Name:	EDF Energy Plc
No. of BSC Parties Represented	9
Parties Represented	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc; EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power); EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; EDF Energy Customers Plc; Seeboard Energy Limited
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier/Generator/Trader/Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	Please see our attachment to this consultation entitled "EDF Energy P211 Defect Analysis Final".
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	Both are important concepts in ensuring that the cash out arrangements are both transparent and accessible ("simplicity") whilst also appropriately targeting the cost of energy imbalance on to out of balance parties ("cost reflectivity"). Given the nature of the GB electricity system, it is recognised that there will always be a trade off between these two sometimes conflicting concepts, but it is clear that it is possible to achieve a better trade off than the arrangements that are currently in place. Given the wide range of actions that National Grid Electricity Transmission (NGET) as System Operator (SO) takes to manage the system, it is impossible to calculate a cash out price that is cost reflective of energy imbalance, when

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Q	Question	Response	Rationale
			it is based on actions that are not primarily for restoring the net energy imbalance. This is quite clearly shown in the analysis presented by National Grid at the cash out review meeting on the 30th March 2007 when they stated that 75% of Offers and 59% of Bids within NIV are polluted by other "non-energy" actions. It is clear that the P211 proposal will ensure cash out prices reflect energy imbalance, by basing the main imbalance price on actions that the SO could have taken on an unconstrained system. It is also clear that this approach moves towards a much simpler and transparent methodology for calculating the main imbalance price.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	It is very clear from the historical analysis contained in Attachment 1 that the P211 methodology produces cash out prices that are a better proxy for the cost of energy imbalance. On days where the SO has identified that constraints occurred on the system and influenced cash out (see figures 14 to 16), the P211 methodology removed the influence of these actions and provided a more predictable and cost reflective price. The analysis also shows that on days of known system stress, the P211 prices rise to reflect this energy scarcity (figures 17 to 19). Based on this analysis, the P211 proposed solution would better facilitate Objective B by sending more appropriate signals to parties of the cost of energy imbalance. This could be expected to reduce the overall level of balancing required by the SO, as there will be more incentive for parties to be closer to balance rather than being consistently long. In relation to Objective C, a more cost reflective price (as provided by the proposal) will better target costs of energy imbalance on to out of balance parties, which will in turn have a positive effect on competition by not imposing costs on parties that they are not responsible for. The proposal could also be expected to increase liquidity on the APX as plant operators in particular will be more likely to sell volume in to this market, rather than retaining it to self-hedge. This in turn could be expected to reduce the

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Q	Question	Response	Rationale
			buy/sell spread and therefore the cost of trading in the short-term market. Finally, in relation to Objective D, the proposal will significantly simplify the BSC by removing the need for most of the tagging processes which add a significant amount of complexity to the current arrangements. This in turn will make the administration of the Balancing and Settlement arrangements more efficient.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Yes	The analysis contained in the note entitled "P211 Alternative (rule 2b) Attachment" shows that the issues that were evident with rule 2a seemed to have been removed, and that the prices produced by the potential Alternative (rule b) are more cost reflective than prices under the current baseline. Figures 7 to 9 clearly show that the impact of constraints is removed by this Alternative and figures 11 and 12 in particular show that the signals at times of system stress are retained. We therefore believe that the potential Alternative (rule 2b) will better facilitate Objective B by exposing parties to more cost reflective prices, but we do not believe that it will better facilitate Objective C because of the additional complexity and reduced transparency in the calculation of the price. We also still have some concern that this set of rules may be prone to producing erratic prices like those provided by rule 2a, although the analysis provided suggests that this is unlikely. On balance, we believe that potential Alternative Modification (rule 2b) is better than the baseline.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	Whilst it is evident that the prices produced under potential Alternative (rule 2b) are more cost reflective than the baseline, it is also clear that there is not a significant amount of difference to the prices produced under P211 proposed. It is also possible that the inclusion of the additional rules under potential alternative (rule 2b) could remove volume that was actually accessible to the SO (as was the case under rule 2a where modelled prices in some cases were higher than outturn prices because accessible volume was removed). On balance, we are neutral in relation to objective b, as it is

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Q	Question	Response	Rationale
			possible that the additional rules utilising dynamics provide a more cost reflective price in some periods, but may remove accessible volumes in others, therefore providing a less cost reflective price. We do not believe the potential alternative (rule 2b) better facilitates objective c because of the additional complexity and reduced transparency of the main price. Overall, we therefore believe that the potential Alternative (rule 2b) is not better than the original proposal.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	Parties will be exposed to more cost reflective prices under the P211 proposal, and it seems, the P211 potential Alternative (rule b) than that provided by the current rules, so they could be expected to behave in a more efficient and economic way. This could potentially mean that parties are closer to balance rather than being consistently long, which could in turn reduce the amount of balancing actions that the SO has to take. We also note that some group members believe that parties may try and "game" the P211 prices to their advantage. We believe this to be highly unlikely and would expect parties to behave rationally within the law. In particular we do not understand why any party would risk breaching FSA market abuse rules in relation to distortion of the market or the creation of a misleading impression; nor would they risk breaching industry codes, or competition law, all of which carry significant financial penalties and severe reputational damage. We would also question why any party would want to try and price themselves out of the balancing market (which is effectively what they would have to do to influence imbalance prices), when this provides a very lucrative revenue stream. A party doing so would also have to correctly predict the market imbalance ("NIV") which in itself is very difficult. It is also worth noting that anyone suggesting that parties would behave irrationally could use this as an argument against any modification to the BSC.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that	No	

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Q	Question	Response	Rationale
	should be considered? Please give rationale		
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	The implementation approach for the proposal is sensible and cheap compared to other recent cash out proposals like P194. We are also supportive of the BSSCo calculating the price (rather than National Grid) as this is both more transparent and robust.
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	We are not sure what benefit parties would gain from being able to see the whole of the EPUS for each settlement period, and therefore support the approach of only building the required DAOV or DABV to calculate the main imbalance price.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	Yes	We would like to make some comments on the following statement contained in National Grid's Impact Assessment on the Alternative P211 Proposal: *"Unfortunately the timing of the raising of this modification, in relation to the ongoing Cash-Out Review, has effectively halted the valuable discussion that the industry would benefit from in relation to what the imbalance price should aim to achieve"* - In response, as a signatory to the Code we have the right to raise modifications at our own discretion, in the same way that other industry parties have the right to propose modifications to the Code. The P211 modification group had an unusually broad and high level of attendance (as did that for P212), and the analyses undertaken and discussed were extremely comprehensive. The quality of the debate and consideration given to the modification at the P211 Group was quite outstanding.

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Q	Question	Response	Rationale
			Moreover, the raising of the modification itself was a response to the revelation at the discussion meeting on the 30th of March that there is currently severe pollution of cash out prices by system-related BOAs. There was no timetable set for further cash out discussion meetings at the time, and the raising of our modification did not preclude wider discussions at further cash out discussion meetings had they been required or scheduled. EDF Energy recognises that further reforms to the cash-out arrangements may be required and we will aim to work closely with all industry parties (as well as Elexon and Ofgem) to further improve the BSC.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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P211 Defect Analysis

David Lewis
Energy Regulation – EDF Energy

What is the defect for P211?

- The current cash out rules are designed to provide a proxy for the cost of **energy** imbalance
- This is achieved by removing certain trades from the price calculation that were taken by the System Operator (SO) which are deemed to have been taken for other non-energy reasons
- The mechanism to achieve this does not however work – 75% of Offers and 59% of Bids that are used to calculate the "main" imbalance price contain other non-energy actions (e.g. reserve, intra half hour demand and locational constraints)
- There is a specific gap in the current rules where the "other action" also helps to resolve the market imbalance (i.e. the action has a dual purpose)
- The next slide illustrates this point in more detail

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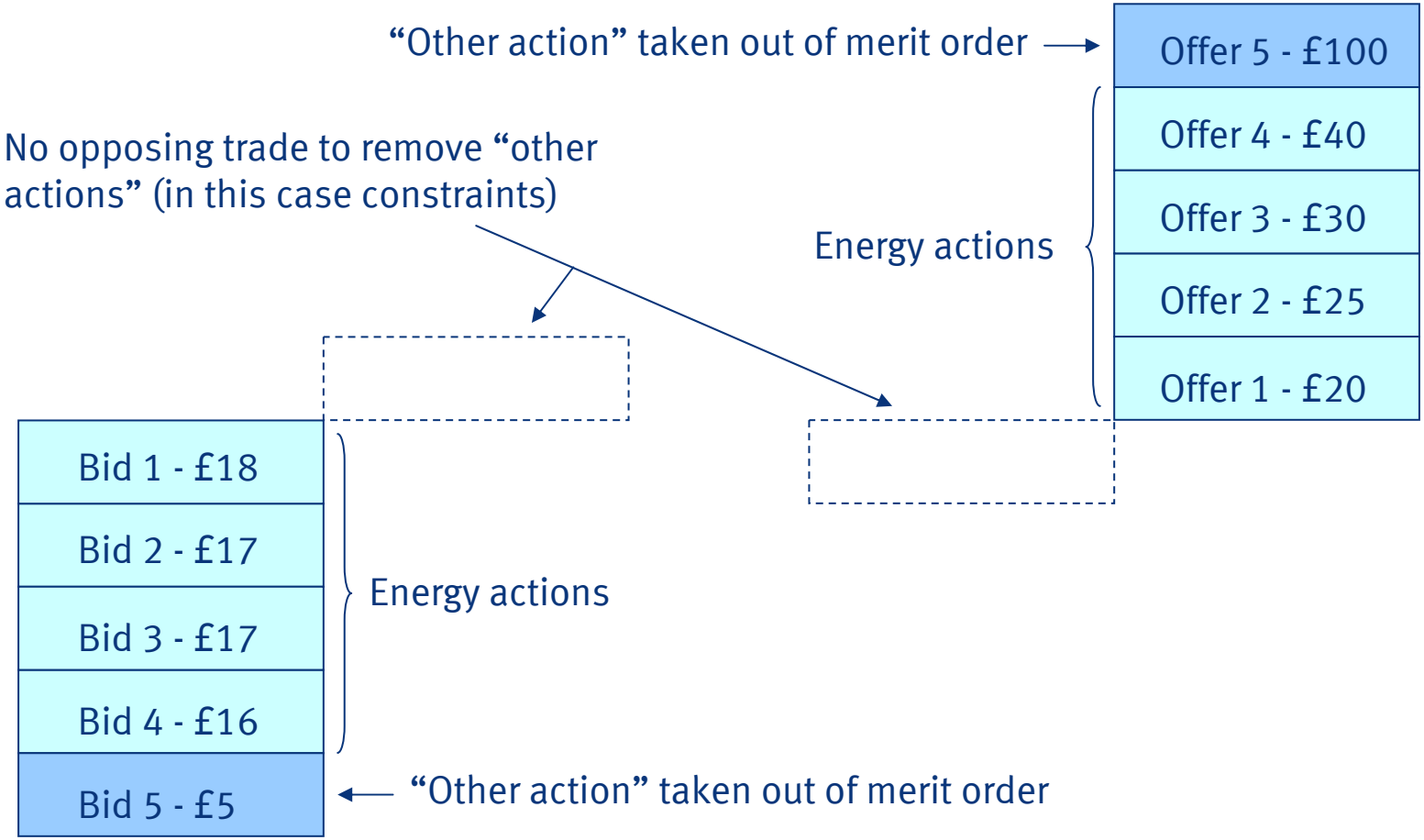
Illustration of defect (constraints) – long & short market

Export Constraint (Long market):

Import Constraint (Short market):



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What is the extent of the defect?

- One measure is to look at the “out of merit ness” of the action taken by the SO
- This can be illustrated in a long market by Comparing SSP to a “proxy” cost of generation
- Bids (from which SSP is mainly derived) are essentially the price at which plant operators are willing to buy energy from the SO to displace their own generation (i.e. they are only going to buy energy from the SO if it is cheaper than their cost to generate)
- In a well functioning competitive market, SSP should therefore be just below the cost of generation
- SSP falling significantly below the cost of generation is an indication that other actions are affecting the price

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Cost of Generation Analysis

- EDF Energy has calculated a “proxy” cost of generation for each day since November 2006 and then compared this to outturn SSP when the market is long (using daily averages)
- The difference between the two provides a measure of the efficiency of the market and an indication of other (non-energy) actions affecting the price
- We have used this to identify “suspicious” days and then looked into the Bid Stacks (after tagging has been applied) to identify if any out of merit actions were taken by the SO
- We have then asked National Grid to identify if constraints occurred on some of these days

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Cost of Generation Analysis – Assumptions

- We have calculated a theoretical daily running cost for a coal and gas plant, and then taken the higher of the two as the proxy generation cost
- Prices have been calculated using prompt gas (SAP), prompt coal (CIF ARA API#2) and prompt carbon (rolling front year)
- We have used the following assumptions for plant efficiencies and CO2 intensity (measured in tonnes per MWh):

	Efficiency	CO2 Intensity
Gas	49.13%	0.4
Coal	38%	0.9

- We have also added $15 to the Coal Price for transportation (using Deutsche Bank assumption for a typical UK coal plant)

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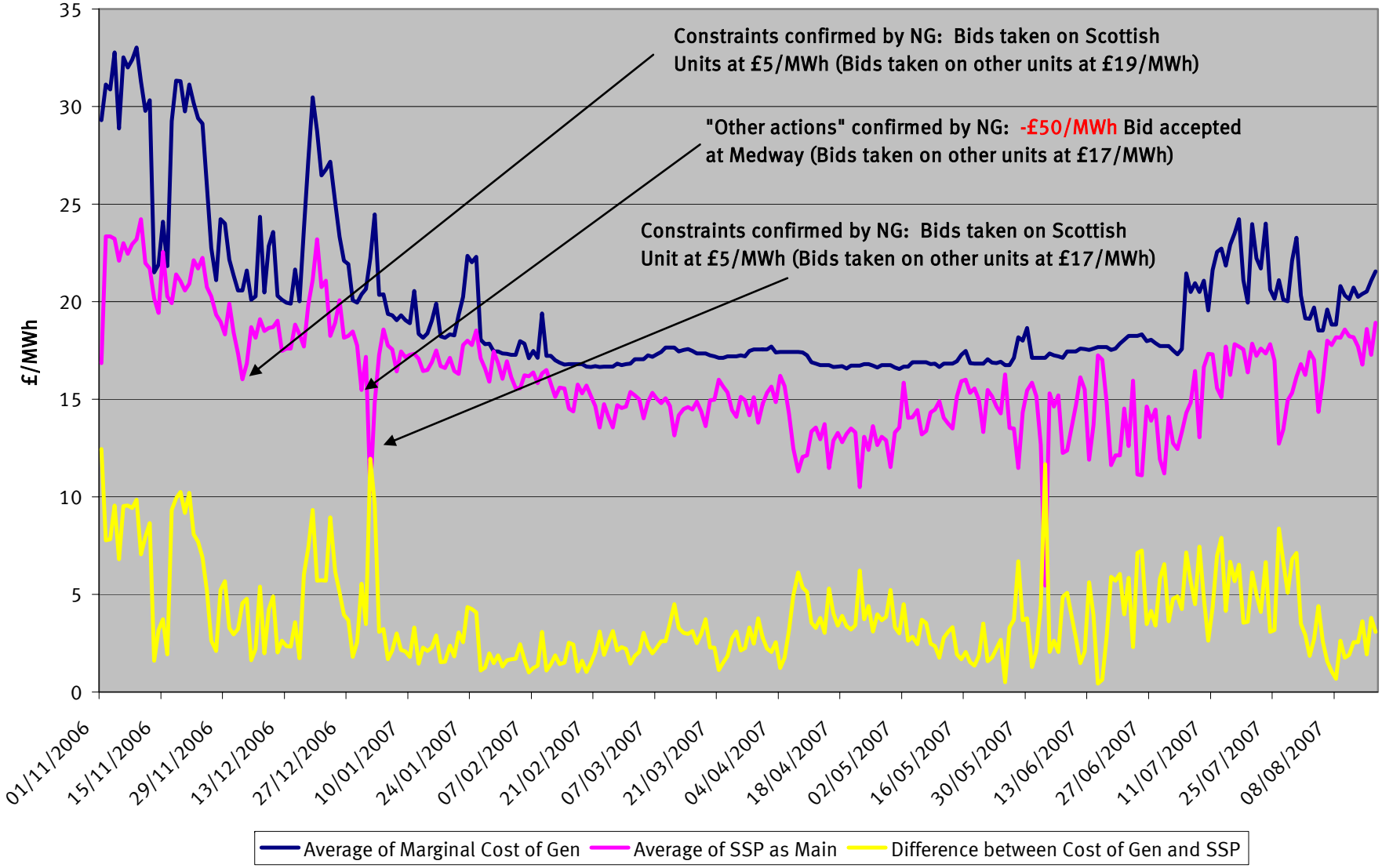
Cost of Generation versus SSP (Nov 06 – Aug 07)



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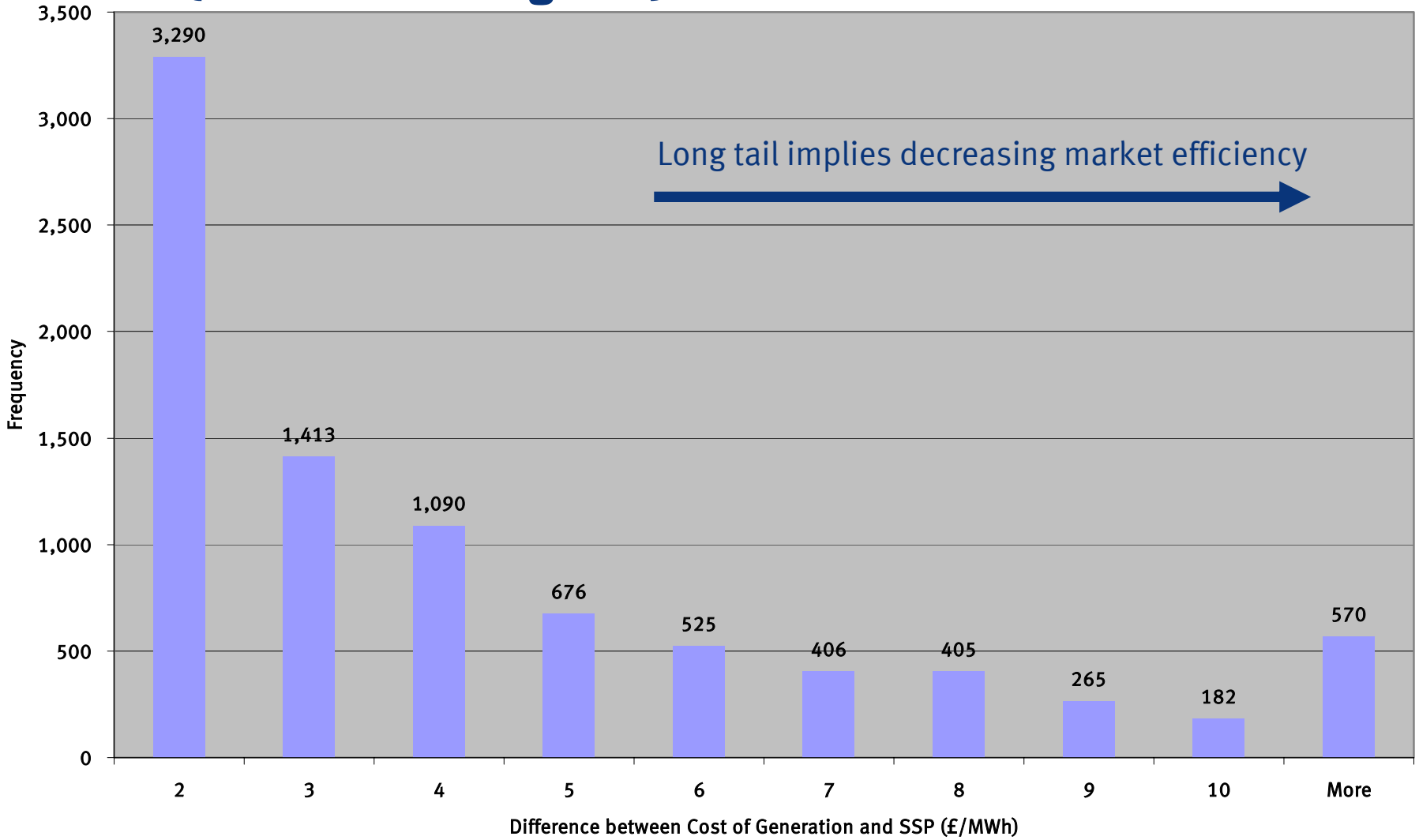
Distribution of difference between Cost of Gen and SSP (Nov 06 – Aug 07)



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Conclusions

- Analysis shows conclusively that non-energy actions such as reserve creation, actions to resolve intra HH demand fluctuations and constraints are having a detrimental impact on SSP
- There is a significant number of periods where SSP falls significantly below the cost of generation (570 periods where this was greater than £10/MWh)
- It is highly likely that these periods are polluted by other non-energy actions (National Grid confirmed for all the days that we identified that either constraints or other non-energy actions were taken and impacted the cash out price)
- This problem is likely to get worse as more renewable generation connects in Scotland and the system becomes more constrained

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P211 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Libby Glazebrook*
Company Name:	*International Power*
No. of BSC Parties Represented	*Five*
Parties Represented	*First Hydro Company. Rugeley Power Generation Ltd., Saltend Co-generation Limited, Deeside Power Development Company Ltd, Indian Queens Power Ltd.*
No. of Non BSC Parties Represented (e.g. Agents)	*None*
Non Parties represented	*None*
Role of Respondent	*Generator*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	The analysis presented by National Grid at the 30 March CORWG meeting suggested that for the month of November 2006, the SBP was 7% too high and the SSP 9% too low as a result of non energy related actions feeding into cashout prices, Subsequent to the 30 March meeting, National Grid placed numerous caveats on their analysis (it ignored dynamics, ignored the actual value of NDZ when it was less than 89mins, was based on one month's worth of data etc.). National Grid opined that the level of sub optimality lay somewhere between 0 and 7%. The analysis presented by EdF Energy during the modification process has identified days where constraints have been shown to substantially affect the SSP, but all of these days were just after BETTA and before a bilateral contract was (we believe) negotiated to manage these constraints, and the

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Q	Question	Response	Rationale
			introduction of clauses placed in the SO incentive scheme to encourage examples of constraint exploitation to be notified to Ofgem. Whilst it is possible to identify some recent possible Scottish constraints, there have been very few occasions when these would have resulted in any change to cashout prices, and if they have, this impact has been negligible. Scottish bid prices are now usually close to or at the top of the bid merit order and so cannot be having much of an impact on lowering the SSP. When constraints have been apparent, these have been managed through the use of system PGBTs which do not affect the SSP.
			Qualitatively therefore we believe that the extent of the defect is overstated. Furthermore, in targeting this perceived defect, the proposed modification would undermine current levels of cost-reflectivity. Cost reflectivity is more important than the removal of a small degree of system pollution in cashout prices. Rather than worrying about a low level of sub-optimality (estimated as somewhere between 0 and 7%), Ofgem and the market should be congratulating itself that it has achieved this high degree of cost reflectivity in cashout prices
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	Clearly both together are ideal but simplicity should not be achieved at the expense of cost reflectivity. A simple cashout price regime could for example simply fix SBP at £200 and SSP at £10/MWh. Whilst most of the time this would encourage parties to balance, it would not reflect the actions that SO had actually taken, and would therefore introduce significant inefficiencies into market operation. Therefore some level of complexity is necessary, and especially when coupled with transparency, appropriate. P211 is neither simple nor cost reflective and so would seem to fail against both of these selected criteria.

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Q	Question	Response	Rationale
			Cost reflective cashout prices encourage parties to take rational trading decisions. If the market sees for example a strong signal of need for additional generation (e.g oil plant over peak), it will react to avoid the potential cosequences of being exposed to this price via SBP either by bringing its own plant on or buying MW from another party in the short term markets. If the party does neither of these, it will face the imbalance price. P211 will lose this signal. If, on average, Parties expect a more benign Energy Imbalance Price due to the EPUS stack including volumes that the SO cannot feasibly access then they will make a rational decision to only trade in the forward market at a price lower than the forward price under the current arrangements. The reduced incentive to trade results in more imbalance and higher costs for the SO. A cost reflective mechanism is not a barrier to entry for small players provided they are able to trade and balance their positions. Any difficulties with trading or balancing (e.g. lack of liquidity for small volumes) will still remain (unless there is no cashout price) regardless of the cashout mechanism. Market rule changes may in fact create a barrier to entry for smaller players as P211 is a significant departure from the current arrangements (and any previous version of the current arrangements). Companies will have to undertake completely new analysis and historic data will be worthless.

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	Objective b) This modification is a trade-off between a perfect world constraint free cashout price versus one that is to a very large extent (at least 93% according to the SO) cost reflective. Short term market prices change in response to expectations of the imbalance exposure parties will face if they fail to balance their positions at gate closure. P211 will reduce this link, this will be particularly apparent when peaking plant is required to run in the BM but won't feature in the EPUS calculated price. Short term forward prices will not therefore rise towards a reflection of the potential cost of imbalance because they will instead be based on a theoretical offer stack. Plant that could under the current arrangement have profitably sold its output in the forward market may instead tend more often to reserve output for the BM. To balance the system, the SO will have to take more actions in the BM. This is neither economic nor efficient. Objective c) All Parties contribute proportionately to the costs of balancing via the Balancing Services Use of System (BSUoS) charge and those that are out of balance, via SBP and SSP. The Proposal moves away from reflecting the costs incurred by the SO to resolve the net imbalance on the system. This results in a increased balancing costs being socialised across all Parties as a result of weakening the incentives on those in imbalance. This effect will be detrimental to competition. The proposed mod. may also provide incentives to submit dynamic parameters that ensure that a generating unit would not be called upon in reality (e.g. a long NDZ or MNZT) but could feature in an EPUS schedule. Parties could therefore influence the resultant cashout price to their benefit which would also be detrimental to competition. Objective d) – The extent of the defect has not been demonstrated. Changing the current arrangements to resolve an unquantified defect does not promote efficiency. It is change for the sake of change.

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Q	Question	Response	Rationale
4	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	Objective (b) - The Alternative like the Proposed will break the link between actions taken by the SO to balance the system and the cashout price resulting in a dampening of the price and the signal to avoid imbalance. The SO will have to take more actions to balance which will increase costs for BSC Parties. This is neither economic nor efficient. Objective d) – The extent of the defect has not been demonstrated and the alternative is arguably more complex than the current arrangements. Changing the current arrangements to resolve an unquantified defect does not promote efficiency. It is change for the sake of change.
5	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Possibly	Whilst we do not support either the Proposed or the Alternative, the alternative is preferable to the proposed as it takes account of some dynamics and would prevent unfeasible actions feeding into and influencing the cashout price. As an example, under the proposed modification, a generator that had lost a unit when the system looked short could offer another unit (that ordinarily would not participate in the BM) into the BM at a low price with a long NDZ. National Grid will be unable to use the unit in reality because of the NDZ but the unit would feature in the EPUS under the Proposed modification and would dampen the EPUS cashout price, reducing the Party's imbalance exposure. The Alternative only allows BM units with an NDZ of less than 90 mins into the EPUS, cashout prices are therefore much less able to be manipulated. Since the Alternative produces cashout prices that are more cost reflective of energy balancing actions than the Proposed, it better facilitates the BSC objectives when compared to the Proposed modification. However, not all 'real life' dynamic constraints are factored into P211, despite its complexity, and it therefore fails to better meet the Objectives compared with the baseline.
6	Do you have any views on how these solutions will influence market participants' balancing behaviours and	Yes	Both solutions will result in a cashout price that is less cost reflective than the current arrangements. Short term forward prices will reflect the lower cashout prices and less fine tuning of contract positions will take place in

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Q	Question	Response	Rationale
	any subsequent impact on the SO? Please provide rationale.		the short term markets because the prices will not be high enough to cover in particular peaking generation costs. The SO will have to take more actions in the BM to cover this shortfall increasing the SO's costs and BSUOS charges to the overall market.
7	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	This will speed up the processing time.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	To assist the debate, recent analysis should be undertaken by the mod group and National Grid to establish the extent and impact on cashout prices of constraints over the last few months. This would provide the mod group with evidence of the extent of pollution of cashout prices now that Scottish constraints are much less of an influence on the cashout price.
11.	Are there any further comments on P211 that you wish to make?	No	

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P211 ASSESSMENT PROCEDURE 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:	Robert Longden
Company Name:	Airtricity
No. of BSC Parties Represented	*1*
Parties Represented	Airtricity
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	Trading Party Interconnector User
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	The defect is significant and discriminatory in its effect. A core element of the Cashout arrangements is that electricity imbalance prices should only reflect the cost of energy and not other actions that National Grid, as the System Operator, takes. Ofgem has identified significant pollution in energy imbalance calculations using the present arrangements. National Grid itself has acknowledged this at the Industry Cashout Review Meeting on 30 March 2007, where it presented data which stated that 75% of Offers and 59% of Bids in the cash out price are polluted by other actions [such as locational constraints]. The effect of these actions is to distort imbalance prices, and act to systematically disadvantage smaller parties.

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Q	Question	Response	Rationale
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	Both are important. The pursuit of cost reflectivity for its own sake, without due regard to the complexities and sufficiencies of any incentives involved, is of little value. Complexity tends to promote obfuscation and the more complex the arrangements, the more time and effort that has to be devoted to understanding and verifying their outcomes. This results in arrangements being virtually impenetrable for all but the largest market participants. Provided that certain safeguards are in place, arrangements should be as simple and transparent as possible, whilst providing adequate and proportionate incentives. Provided that the objectives and incentives of any revised arrangements are aligned, then the desired behaviour will be facilitated
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	When implemented, the Original P211 proposal will result in less "system action" pollution of the imbalance price. Thus objective (b) will be better facilitated, as a distorting cost signal will be removed. Equally, as the effect of competitive distortions in the current cash-out rules would be reduced, objective (c) would also be better facilitated. Impenetrable and distorted cash out rules act to deter new entry into the market. Reform will therefore promote new entry, delivering benefits under objective (c).
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Neutral	There is insufficient information and analysis available for the proposed alternative, for it to be considered at this time. It is not yet in a fit state to be presented. It should be properly and fully worked up, prior to wider industry debate.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	For the reasons given in 4 above.

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Q	Question	Response	Rationale
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	There will be no lessening of the incentive to contract [and hence balance] under P211 Original. There should be a beneficial outcome in that incentives to "go long" will be reduced.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	The objective of minimising the impact on prompt prices is to be welcomed. Current arrangements do not provide sufficiently timely, clear data on system prices. It therefore essential that there is no further degradation of the timing and level of information available.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	The costs of within half hour actions need to be further investigated to ensure that their impact is assessed and quantified. P211 does not currently address this area.
11.	Are there any further comments on P211 that you wish to make?	Yes	P211 seeks to rectify a defect which is associated, in part, with the opacity of the "tagging" process". National Grid should be tasked to develop a method for categorising acceptances as they occur.

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P211 ASSESSMENT PROCEDURE 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:	*Keith Munday*
Company Name:	*BizzEnergy Ltd*
No. of BSC Parties Represented	*1*
Parties Represented	*BizzEnergy Ltd*
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*Supplier*
Does this response contain confidential information?	

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes/	We believe that imbalance prices are significantly polluted with actions of the system operator to manage the system and are also distorted by participants' exploitation of the short term market for reasonable financial gain. The impact of this pollution is that SBP is inflated and SSP is understated. Thus imbalance parties are frequently exposed to a higher cost than they should be for pure energy under pure energy trading market conditions. The concept of polluter pays is well established in the industry. However, some of the actions taken by the system operator are not for balancing block energy for a half hour. As a result the costs of these actions are disproportionately spread across those who are out of balance. A party who is balanced within the period may still have caused a system operator action, but is not exposed to the consequences of that action. Smaller players who by the very nature of their portfolios (less diversity and less history) are exposed to disproportionately higher costs than the larger

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Q	Question	Response	Rationale
			players and are in effect cross subsidising them.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	The current mechanism is excessively complicated to the extent that probably only a few people in the country can fully understand it and its implications. Even through this complexity the mechanism still does not produce an accurate and reliable result. Therefore the benefits of this complexity are very questionable.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	BSC Objective C is better facilitated. Prices will be less peaky, but if some of the current peaks are caused by system operator non-energy balancing actions, then we see this as a positive result. There still appears to be sufficient volatility from energy balancing actions such that for us the incentive in terms of contract position is to become more balanced (i.e. less long). As described in question 1, smaller parties are more likely to be out of balance due to forecasting errors (less diversity, less history) and are currently exposed to a disproportionately higher cost than the larger players. This modification is in effect reducing or removing a cross subsidy, hence in our view BSC objective C is better facilitated.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Yes / No	We do not feel in a position to judge due to the excessive complexity. We share the concern of the group that there may be further anomalies to account for.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Yes/ No	See above

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Q	Question	Response	Rationale
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	Our initial thoughts are that we would probably still aim to go long, but less long than under the current mechanism. Thus our position is likely to be more balanced.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes / No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes / No	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes / No	
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes / No	The workgroup need to address various approaches and definitions of what is energy balancing and what is system operation further. Whilst there will be no clear definition, several straw men on the options would be useful in assessing whether P211 has excluded system operation action and just left energy only actions.
11.	Are there any further comments on P211 that you wish to make?	Yes / No	

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P211 ASSESSMENT PROCEDURE 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 Limited
No. of BSC Parties Represented	1
Parties Represented	Uskmouth Power Limited
No. of Non BSC Parties Represented (e.g. Agents)	none
Non Parties represented	
Role of Respondent	Generator
Does this response contain confidential information?	No

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	While we agree that there are times when cash out prices do not appear to "correctly" reflect the state of the system, we do not agree that this is a major defect given the relatively expensive nature of energy provided for short term energy balancing actions.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	Uskmouth would like to see cost reflective pricing as it is important to encourage plant to be available in the short term and for new plant to be built in the longer term. Changes that artificially suppress any prices will be detrimental to the economically efficient development of the market as a whole. It is also important that suppliers continue to look to buy their energy in the pre-gate closure markets, where power would reasonably be expected to be cheaper due to the costs associated with near real time delivery. The idea of creating a merit order that does not reflect what could or would actually be delivered and therefore cannot be reflective of prices, would not in itself appear to be a "simple" solution rather than one that results in lower cash out prices.

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Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	While we agree that there are times when cash out prices do not appear to "correctly" reflect the state of the system, we do not agree that this is a major defect given the relatively expensive nature of energy provided for short term energy balancing actions.
			There seems to be a view that it is possible to manage the risks associated with cash out prices. However, we do not believe that this is really possible via traditional hedging. What seems more important is that the prices are not extreme and remain reflective of the costs the SO faces in real time. We do not believe that un-constrained schedules can be cost reflective as they do not recognise the technical issues associate with actual delivery of energy. Uskmouth does have some sympathy with the view expressed in both P211 and P212 that cash out prices can end up reflecting prices from the SO managing transmission issues rather than simply the cost of "energy". We agree that it is difficult to separate the "energy" from "system" costs when looking at actions taken by the SO under the BM. However, we would rather see the tagging methodology tweaked than this modification implemented. We are also concerned that by making cash out prices more "simple" there are potential impacts on RCRC calculations that will make those refunds/charges less predictable and more likely to smear, rather than target, costs across the market.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	Uskmouth does not believe that the modification will better facilitate the relevant objectives. The SO cannot efficiently discharge its licence when it does not have to consider the costs associated with plant dispatch as no party will be monitoring their behaviour closely. On b, the efficiency of the transmission network will deteriorate as parties have a reduced incentive to balance and

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Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	While we agree that there are times when cash out prices do not appear to "correctly" reflect the state of the system, we do not agree that this is a major defect given the relatively expensive nature of energy provided for short term energy balancing actions.
			more of the balancing will be left to the SO. This flies in the face of the intention of NETA's original design to force parties to balance themselves. Notably on objective c, it would be detrimental to the operation of competition by incorrectly charging those who create costs by being unable to correctly forecast their demand, or who fail to carry out maintenance, etc. It also creates the potential to require more smearing if the cash out prices charged no longer cover the costs associated with the actual actions the SO had to take to balance the system. Ofgem has always favoured a polluter pays approach to cash out and this modification would undermine the signals that have been created to date. Finally on d, Uskmouth feels that new rules will be required to stop the potential gaming that may occur around the generators' behaviour. A variety of new rules would be needed and then policing would follow racking up costs and administration and reducing the efficiency of the BSC and its implementation.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	No we believe that the alternative has many of the same problems that the original has. However, if Ofgem were to want to implement one of these modifications then this would be far better than the original in that it at least captures some of the dynamics used in the dispatch of plant in real time. It would create a stack that looks more like a traditional EPUS, rather than including plant that could never have been used in real time. Uskmouth does not believe that the alternative better fulfils the relevant objectives, but it would be the least bad solution. In terms of the relevant objectives the alternative has the same problems as outlined above.

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Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	While we agree that there are times when cash out prices do not appear to "correctly" reflect the state of the system, we do not agree that this is a major defect given the relatively expensive nature of energy provided for short term energy balancing actions.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Yes	As discussed above, Uskmouth feels that the alternative is better than the original in that it recognises the dynamics of the plant when creating the EPUS. It therefore has a greater element of cost reflectivity that the original and would therefore provide a more economically efficient price. However, it would not be better than the current baseline.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	Uskmouth has not had time to undertake any actual analysis on the impact the prices may have on the market players, but we would expect that such a pricing mechanism could create perverse signals. For example power plants would not have to be as concerned about their plant reliability if they could earn more through the BM than they would be likely to pay in cash-out. Likewise the risks of start up would be reduced potentially resulting in more flexible dispatch, but at a higher cost for the SO in accepting and accommodating more system trips. Suppliers would also have a reduced incentive to contract forward, with larger open positions being taken into the balancing period. All such behaviour would have an impact on the cost of balancing and over time the cost targeting will become less and less focussed.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	

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Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	While we agree that there are times when cash out prices do not appear to "correctly" reflect the state of the system, we do not agree that this is a major defect given the relatively expensive nature of energy provided for short term energy balancing actions.
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	Uskmouth agrees with the proposed solution as we feel the provision of prompt prices is vital to the operation of the market. However, we want to be sure that the technology used would be capable of picking up the "correct" plant as we are reminded of the GOAL software that would not calculate the same price more than once.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	Uskmouth would note that prompt pricing must remain a key requirement of the cash out regime.
11.	Are there any further comments on P211 that you wish to make?	No	

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Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

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P211 ASSESSMENT PROCEDURE 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:	*Graham Meeks*
Company Name:	*CHP Association*
No. of BSC Parties Represented	
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).*
No. of Non BSC Parties Represented (e.g. Agents)	*Various existing and prospective CHP operators*
Non Parties represented	
Role of Respondent	*Trade association*[1]
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	The P205 decision letter and analysis presented by National Grid at the 30 March cash-out review industry meeting shows there is presently significant pollution in energy imbalance under current pricing rules, and thus a clear defect. The defect operates in such a way as to systematically disadvantage smaller parties, non-portfolio players and in particular players with non-flexible load tied to heat production such as our members.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	More emphasis should be placed on simplicity, as the current rule book is overly complex and impenetrable for those outside of the largest players. The theory of cost-reflectively is fine in principle, but in practice is very hard to apply in this context, and it is well-documented that the current rules do not achieve cost reflectively for the energy imbalance.

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

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	P211 original proposal results in less system pollution of the imbalance price, which must deliver benefits under objective (b) as a distorting cost signal will be removed. Significant competitive distortions in the current cash-out rules would be reduced, facilitating objective (c). This element of cross-subsidy will be removed. The operation of the current cash-out rules are a barrier to entry. Over the longer-term more equitable cash-out rules should facilitate new entry, also delivering benefits under objective (c).
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Neutral	P211 alternative is opaque, not well described and its effects unclear. The analysis in support of it was delivered too late into the consultation process to be properly assimilated.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	See arguments in response to 4 above. The original is greatly superior.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	We do not consider that the incentive to contract will be impacted under the EPUS approach, especially during times of system stress. At the same time it will reduce incentives to go long.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	

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Q	Question	Response	Rationale
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	It is already difficult under the cash-out rules to get timely, clear data on system prices. There must be no further degradation of the timing and level of information available.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	P211 substantively addresses the issue of system pollution of the energy price (and therefore one aspect of existing cross subsidy as the rental is recycled through RCRC to parties in balance). It does not however address the costs of within half hour actions.
11.	Are there any further comments on P211 that you wish to make?	Yes	The problems caused by the current tagging approach would be much better understood and could be greatly ameliorated if National Grid were able to develop a method for categorising acceptances as they occur. It is disappointing that the modification group has not taken a much closer look at what is the current price stacks.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

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P211 ASSESSMENT PROCEDURE 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 (e.g. Agents)	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 / Distributors / 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 have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	**Yes**	ScottishPower acknowledge that there is a defect relating to imbalance price impact due to transmission constraints. However, We do believe that after 6 years of NETA/BETTA operation, the current cash out pricing arrangement is well proven, reasonably reflective of SO actions and provides an appropriate incentive to balance. While there were some examples of particular problems during the BETTA transition period, our understanding is that the frequency and impact from any subsequent similar occurrence were minimal and cannot justify such wholesale change of arrangement as proposed by this Modification. If possible, ScottishPower believe that there may be a case to refine the current cash out arrangement to further improve removal/tagging-out SO actions as a result of transmission constraints.

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

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Q	Question	Response	Rationale
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	ScottishPower believe the principle of main imbalance price should be to reflect SO actions for that particular period to resolve energy imbalances. This price should then be applied to those parties who are out of balance. We accept that a solution and mechanism to fulfil such principle should be simple. We do not think the current arrangement to be overly complicated or a barrier to entry. Electricity is not a simple business. Rules have to be reflective of the principles. The new arrangement as proposed by this modification and its alternative while simple on the surface is not any more efficient to operate or easier to understand.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	**No**	ScottishPower believe this modification creates prices that are artificial and unrealistic and would <u>not</u> better facilitate the achievement of the Applicable BSC Objective (b) – efficient operation of the transmission system, (c) – promote competition or (d) – efficient administration, when compared with the current baseline. In approving P194, the Authority argued that the averaged cash out prices were not as reflective of SO actions and therefore did not give sufficient incentive to balance. As analysis showed, this modification will be even less reflective than the averaged pricing arrangement. This means that it will give even less incentive to balance which could give rise to greater SO actions and costs. Furthermore, as the Mod Group has suggested, the reduced penalty on imbalance potentially could mean less concern to ensure 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 to their imbalances. Also, while the modification attempts to eliminate 'pollution' from constraints, it creates an environment for potential price manipulation (within the rules) and resulting in other potential price distortions. We are also concerned that for a low materiality defect, the industry could change the arrangement so fundamentally that could undermine a lot of investments by existing participants. Such situation gives uncertain signal to the market. These factors do not promote Objective (c). On Objective (d), ScottishPower do not believe that the new arrangement is any more efficient to administrate and operate.

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Q	Question	Response	Rationale
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	**No**	Same rationale and objectives as the Proposed above. While it attempts to produce prices that are more reflective and realistic than the Proposed, the same issues as discussed above remain that are detrimental to the Applicable BSC Objectives. Furthermore, analysis showed that there may be potential anomalies which may give unacceptable results.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	**Yes**	Assuming there is no adverse operational issue, the potential alternative appears to be better in promoting the applicable BSC Objectives (b) and (c) when compared with the Proposed, on the basis that it gives more reflectivity and less potential for price manipulation.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	**Yes**	ScottishPower believe that with less incentive to balance, participants would be less concerned with balancing at gate closure. This would increase SO actions and costs. We are also concerned that parties could submit bids and offers that are unrealistic in an attempt to influence the imbalance price to their advantage.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	**Yes**	As the main issue of the current pricing arrangement is the 'pollution' of transmission constraints, ScottishPower believe that the process of tagging out system actions including transmission constraints should be reviewed.
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	**Yes**	ScottishPower agree that as the Transmission Company have not enough time to give meaningful estimates, then there is no point in pursuing the other options.

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Q	Question	Response	Rationale
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	**Yes**	ScottishPower believe it is important that prices are available promptly and if this is the expedient way to achieve this, then ScottishPower accept this shortcoming.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	**No**	
11.	Are there any further comments on P211 that you wish to make?	**Yes**	ScottishPower find that the pursuance of this modification and indeed P212 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 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. We are also concerned that as with any new arrangement, anomalies could exist (as shown by some analysis) which may not have been envisaged at the outset. This could lead to uncertainty and further development. We suggest such a departure in the pricing arrangement should be developed with more timescale and stress testing. 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. This should be considered when determining the implementation timescale.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

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P211 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

Respondent:	Paul Jones
Company Name:	E.ON UK plc
No. of BSC Parties Represented	7
Parties Represented	Citigen London Ltd, E.ON UK plc, Economy Power, Enfield Energy Centre Ltd, Powergen Retail Ltd, TXU Europe (AHGD) Ltd, TXU Europe (AHST) Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	-
Role of Respondent	Supplier, Generator, Trader, Consolidator, Exemptable Generator
Does this response contain confidential information?	

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	The extent of the defect has not been demonstrated to be sufficiently great, particularly in recent times, to warrant a change of this magnitude to the trading arrangements.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	There is definitely a trade off between these two aims. However, it should be borne in mind that it is also very difficult to define what a correct cost reflective price would actually look like. Theoretically, what the methodology should seek to do is to separate the costs of energy balancing from those of balancing the system, for example in order to overcome constraints. However, it is difficult to fully define the boundary between these two classes of balancing. Additionally, many actions that the SO takes can have a dual purpose. Therefore, these actions can legitimately be regarded as having an effect on energy balancing and should therefore be reflected in imbalance prices to some extent. We are not convinced that a different balance of cost reflectivity and simplicity is required from that provided by the current mechanism.

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	It would provide a solution that would produce a suppressed price as it would include too many unfeasible bids and offers due to the lack of consideration of dynamic characteristics and the consideration of actions only for the settlement period concerned.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	We believe that this would be a less accurate solution and a more complex solution than the present arrangements.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	No	Although it attempts to be more accurate, the simplifying nature of the rules, that do not fully follow what the SO will actually do to balance the market, makes it impossible to gauge whether this would be the case in reality. It would be more complex than the original.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	If imbalance prices are suppressed below that which is efficient then this will lead to an increase in the socialisation of energy balancing costs across all parties (through the combined effects of BSUoS and RCRC). In simple terms, parties in energy imbalance will have too low a cost targeted at them, which will have to be made up by other parties. This will result in a cross subsidy to parties in imbalance. This would be detrimental to competition. Additionally, as the incentive to balance will be inappropriately reduced this will result in inefficient balancing decisions being made. This will also reduce the incentive to accurately forecast customer demand or to invest in the reliability of plant. This will reduce the efficiency of the arrangements and put up balancing costs. Therefore, this solution would undermine applicable objectives c) and b).
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	

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Q	Question	Response	Rationale
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	Yes	Please see the attached paper that seeks to further illustrate why we believe that the above options do not better meet the aim of cost reflectivity.

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An assessment of imbalance pricing and P211

The following is intended to support E.ON UKs' answers to the Assessment Consultation for P211. E.ON UK does not support P211 but accepts that it has some merit as a concept. However, the following illustration will seek to show how practical shortcomings in the two options chosen to implement P211 mean that we cannot support the modification proposal.

The following analysis uses stylised supply curves to show how a "perfect" energy price might be achieved. These curves are not intended to accurately illustrate the supply curve facing the UK market at any particular time or to fully describe the balancing mechanism's operation, but are designed to illustrate the basic intent of what an imbalance price should seek to do and show how the options for P211 compare.

The basic supply curve and pre and post gate closure transactions

Figure 1 below shows the basic supply curve that we will use for this illustration.

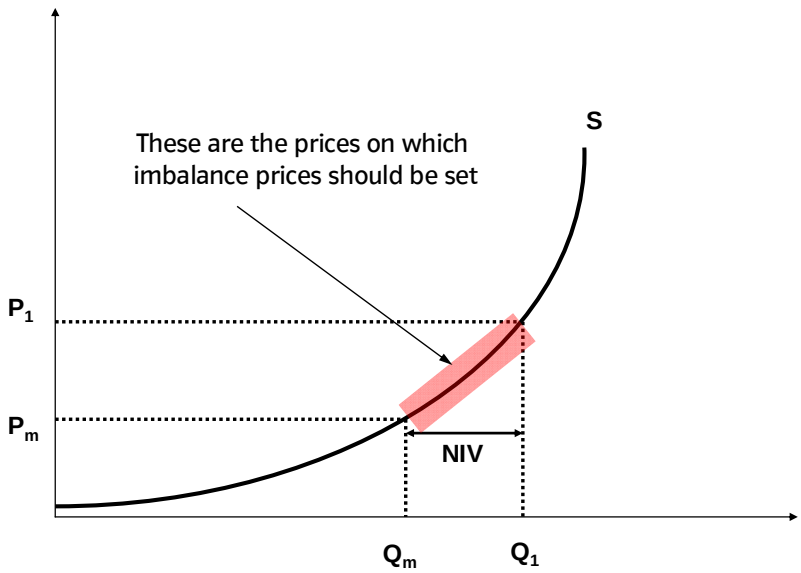

Figure 1: Stylised Supply Curve and a Short Market

In this example we assume that traders will initially buy lower priced offers in the market and that higher priced offers will be taken up as the market moves towards real time. Assume that up to gate closure a volume of Q_m of trades

are made. The marginal price of these pre gate closure trades is P_m. After, gate closure as the market is short over all, the System Operator (SO) has a Net Imbalance Volume (NIV) to meet up to the total demand of Q_1, at a corresponding marginal price of P_1. The part of the curve that imbalance prices should be calculated from is highlighted in red. Assuming an imbalance price calculated from the weighted average cost of these actions, the price would be somewhere between P_m and P_1.

Of course, this example above assumes that there are no constraints effective at the time. Figure 2 illustrates how the present tagging mechanism attempts to deal with these.

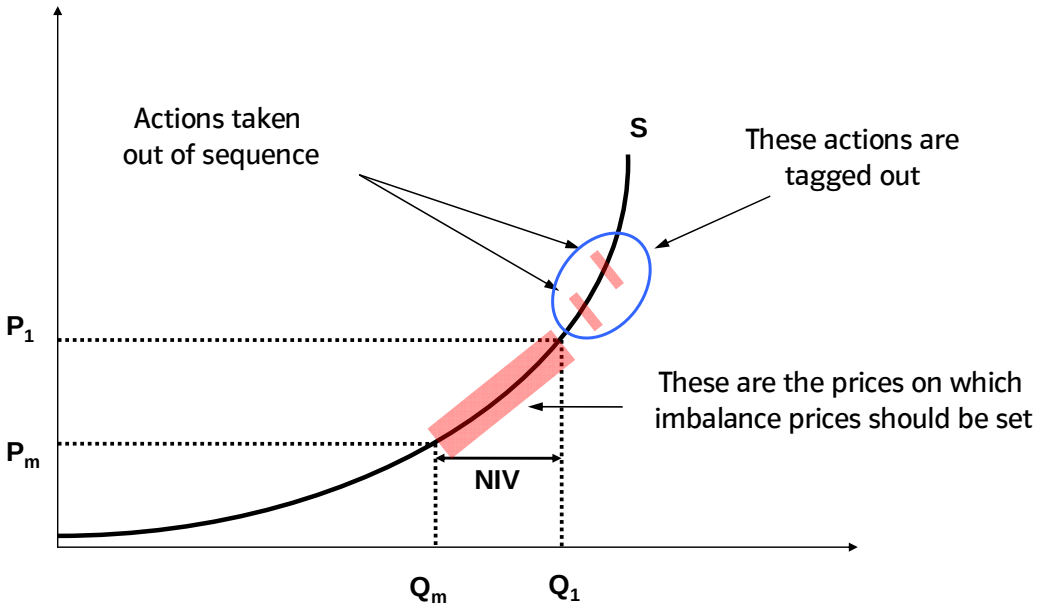

Figure 2: NIV tagging to remove constraint costs

In Figure 2 the actions that have been taken by the SO are illustrated by the red shaded areas. A block of actions have been taken to address the NIV. However, two other actions have been taken further up the curve out of sequence to meet constraints. It would be expected that equal and opposite actions are taken in the opposite direction (the bid curve) to bring the market back into energy balancing.

As it is the net imbalance of the market that should affect energy balancing costs, those actions that are required over and above those needed to meet the NIV are tagged out (by ignoring a volume of the most expensive offers equivalent to the total volume of offsetting bids accepted). Therefore, in the stylised example above the tagging ensures that the correct energy price is achieved.

However, there are circumstances when actions required for system balancing also meet an energy balancing purpose. For example, in a long market a bid accepted in the north of the country may relieve the north south flow and also reduce the length of the market. In those circumstances, actions taken out of theoretical price order may end up in the imbalance price calculation. Figure 3 illustrates this.

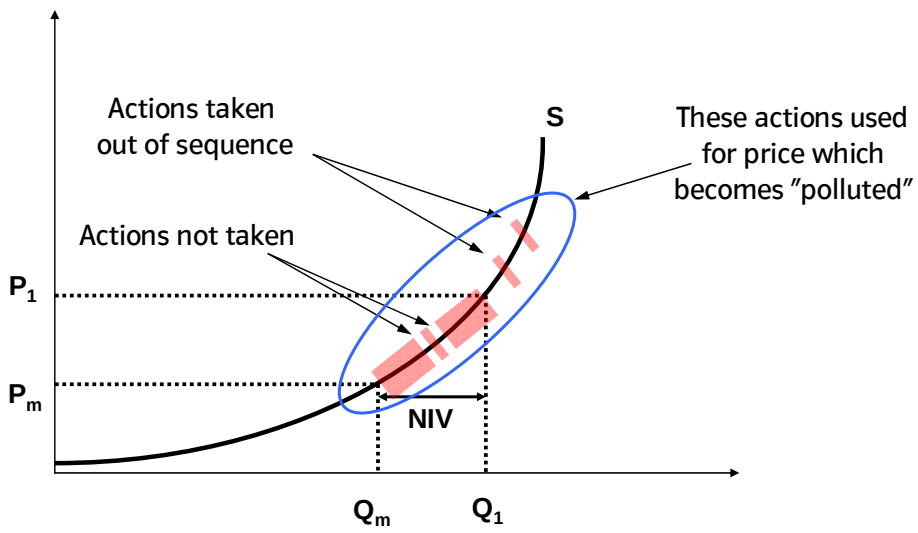

Figure 3: Prices accepted out of sequence

In Figure 3, the system operator has accepted prices out of sequence for system purposes. As these actions assist with energy balancing there is no need to take other actions that could theoretically have been taken. For illustrative purposes these "gaps" are shown in the middle of the block of energy actions that "should" have been taken, although in reality the SO is likely to have taken these and not taken more expensive actions in this block.

In these circumstances, the tagging rules include the higher priced actions in the calculation of the main imbalance price. This it could be argued sets an imbalance price that is higher than it ideally should be. This is what has been described as "pollution" of the energy price.

In reality, of course the situation is not as simple as this. The SO is taking actions over a longer period of time than just in gate closure, against a constantly changing view of the market, in order to resolve potential issues in more than one period. However, the above illustrates the basic issue that that has been raised as a reason for P211 and indeed P212.

Although, we do not actually believe that the extent of the potential defect has been illustrated to be sufficiently material or prevalent to warrant a change to the pricing mechanism, it is worth assessing whether the options under P211 would address the issue. Figure 4 below illustrates what P211 aims to achieve.

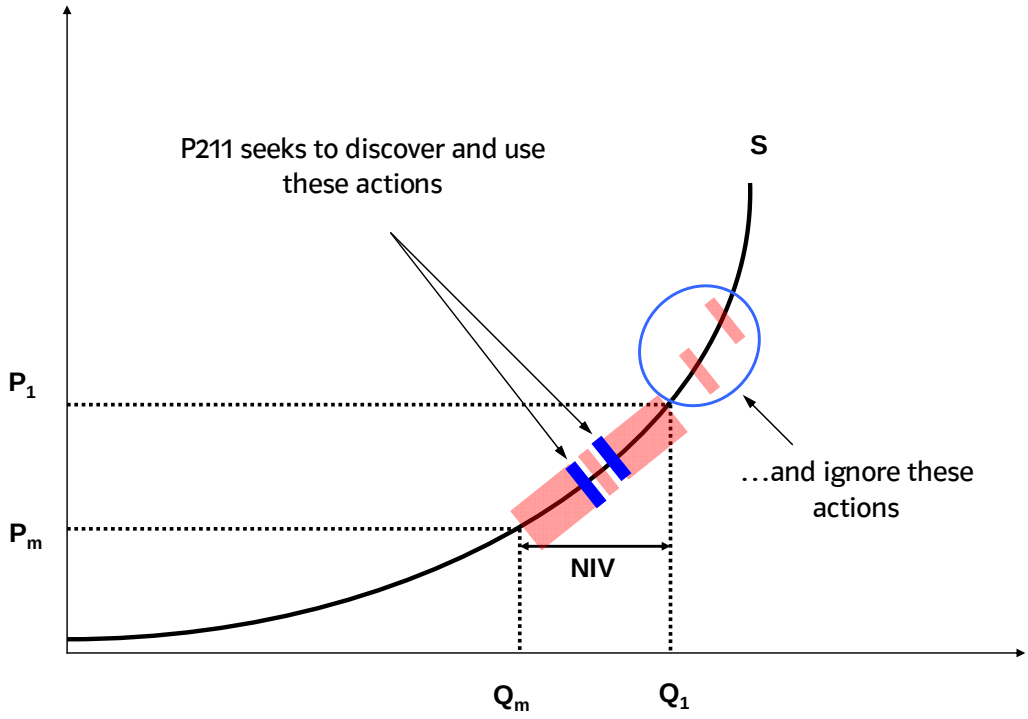

Figure 4: Aims of P211

Figure 4 is fairly self explanatory. The aim of P211 is to create an Ex Post Unconstrained Schedule in order to discover the actions that could have been taken to meet the energy imbalance, but were not, and to use these in the calculation of imbalance prices. Similarly, P211 aims to remove from the calculation those actions that were taken out of price order. This is a sensible aim. However, we do not believe that in practice P211 will achieve this and indeed will actually set prices that are less reflective of the actions of energy balancing.

Figure 5 below illustrates why this is would be the case for the original P211 proposal. The original proposal creates an Ex Post Unconstrained Schedule (EPUS) for each half hour that ignores dynamic parameters such as Notice to Deviate from Zero (NDZ) times or run up rates. Therefore, actions that it wouldn't have been feasible to accept will be included in the EPUS curve. Therefore, P211 will create a "pollution" of its own that will be far more prevalent than the issue that has led to the raising of the modification.

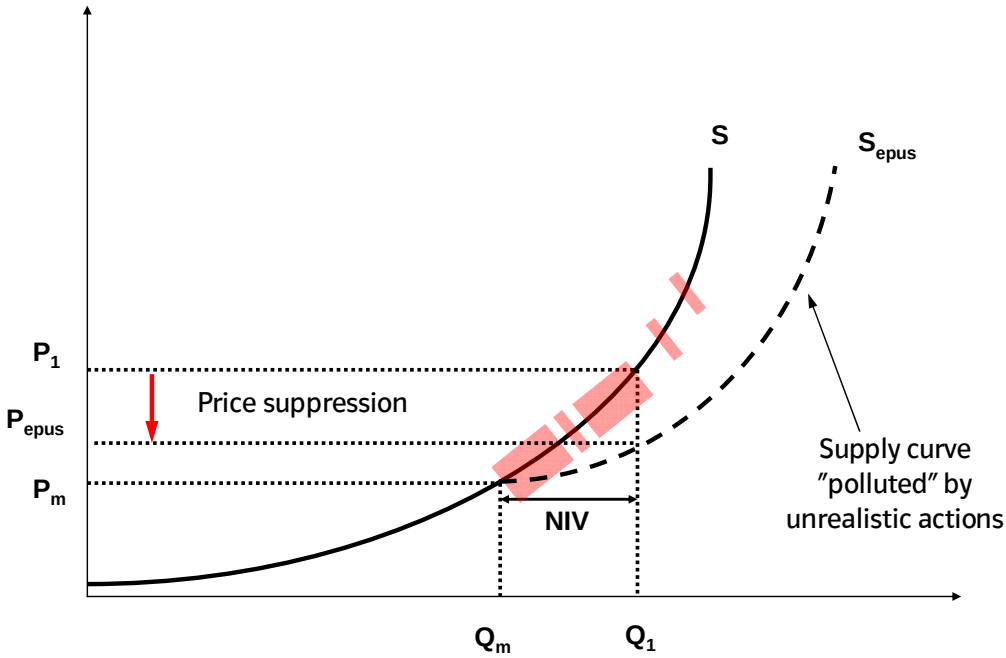

Figure 5: P211 Original

We believe that this will have the effect of pulling down the curve from that which was actually achievable. This is in turn will lead to a suppression of imbalance prices to a level below that which is economically efficient.

A solution to this is to take dynamic parameters into account in constructing the EPUS. This is what the alternative solution for P211 aims to do. However, the rules that have been constructed in order to carry out this calculation are at best approximations of the decisions that the SO will take. For instance, the SO will be thinking about minimising balancing costs over a longer period. Therefore, actions will be taken that will provide a benefit over more than one settlement period. However, the rules derived for P211 alternative seek to optimise each half hour independently. Additionally, some of the rules lack precision. For example, Rule 2b ramps up a generating unit with an NDZ of less than 89 minutes from Gate Closure. In reality, if this unit was called at gate closure, then it would ramp up after the NDZ had elapsed, not immediately.

Rule 2b has the potential to overstate the volume available from such a unit. Figure 6 illustrates this. It is a composite diagram which combines the effects of Rules 2a and 2b, as detailed in Figures 3 and 4 of the Assessment Consultation document. The green line shows the application of Rule 2a, that actually does not form part of the alternative proposal. The output of the generating unit is not assumed to ramp up until the end of the NDZ which would seem to be a sensible assumption. The red line shows the application of Rule 2b that does form part of the alternative proposal and which assumes that the unit can ramp up from gate closure. It is not clear why, if the unit's NDZ at gate closure is important for the purposes of Rule 1, it would be

ignored for the purposes of Rule 2b which is the chosen approach for the alternative proposal.

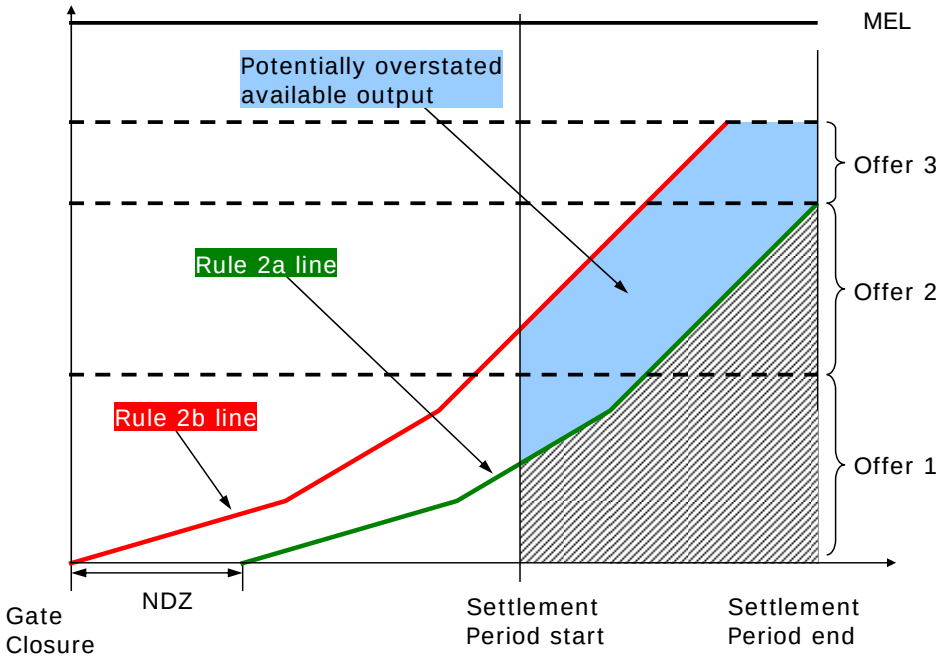

Figure 6: Difference between application of Rules 2a and 2b

The consultation document suggests that the unit may be called earlier than gate closure, to ensure that the unit could have ramped from gate closure. This may be true, but in that case it is inconsistent to assume that it is called at gate closure for the purposes of Rule 1. The blue shading above shows the difference in deemed available output from applying Rule 2b rather than Rule 2a.

Figure 6 shows how Rule 2b could potentially overstate the available output from a generating unit. We also believe that inaccuracies in other rules could understate available output in certain circumstances. Therefore, it is difficult to ascertain whether the application of the P211 Alternative solution would produce an accurate supply curve, or one that was too high or low. This is illustrated in Figure 7 below.

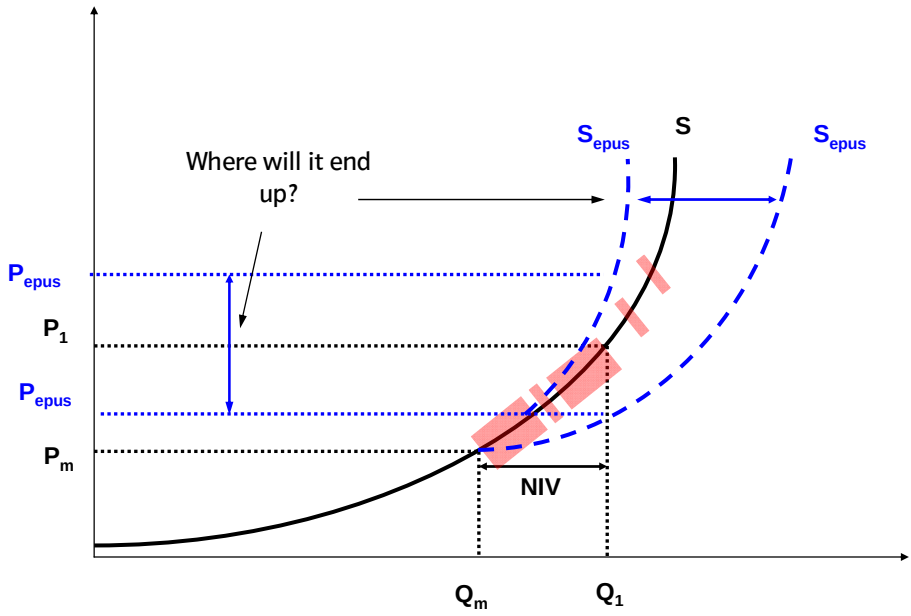

Figure 7: P211 Alternative

The effect of the inaccuracies in P211 Alternative is therefore uncertain and could result in prices that are too high or too low. It also replaces one set of tagging rules with another set that are potentially more complex. It therefore undermines the simplicity that the original solution to P211 seeks to achieve.

Conclusions

Whilst we understand the rationale for the P211 mechanism, we do not believe that it can be made to work in practice. As with P212, we are not convinced that sufficient evidence of a defect has been provided to warrant such a fundamental change in the arrangements. However, even if you were to accept the extent of the stated defect the proposed solutions fail to solve the perceived problem.

The original provides a simpler methodology than the present, but appears to be far more inaccurate suppressing imbalance prices. The alternative may provide more accuracy than the original, but it is difficult to gauge this with any certainty. It would certainly be more complex than the original and the existing arrangements.

P211 ASSESSMENT PROCEDURE 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:	*Martin Mate, Rob Rome*
Company Name:	*British Energy*
No. of BSC Parties Represented	*5*
Parties Represented	*British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, Eggborough Power Ltd, British Energy Direct Ltd, British Energy Generation (UK) Ltd*
No. of Non BSC Parties Represented (e.g. Agents)	*-*
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 have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	We believe that any cashout mechanism should (1) be cost-reflective; (2) meet BSC objectives and (3) be transparent. It is unclear to BE of the extent /impact of the perceived defect identified and that is due to the limited snapshot analysis upon which it has been based. New terms have been introduced to describe certain National Grid actions, such as "Energy Balancing Plus" which has not been defined clearly enough and is perhaps being used in the wrong context as these actions do not solely consist of transmission constraints. However, we do agree that the influence of actions taken because of transmission constraints on imbalance prices is a defect. However, we believe the materiality to be currently relatively small, and that this defect offsets other defects in the pricing methodology. No analysis has been performed to identify the extent to which transmission constraints alone (not Energy Balancing Plus) have or could affect imbalance prices, and such analysis is notoriously difficult. We do not agree with the proposer that the real and unavoidable requirement to resolve an uncertain imbalance using actions which are subject to dynamic constraints should be considered a defect. Imbalance can only be met efficiently

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Q	Question	Response	Rationale
			by taking into consideration the dynamic constraints of generators (and other providers) and by taking advance actions to prepare for uncertain imbalance occurring at short notice. If dynamic constraints are ignored, and perfect foresight assumed, our view is that the resulting 'unconstrained' schedule will be systematically unachievable and will systematically underestimate the true cost of balancing, i.e. it will not be cost-reflective. This in itself would be a far greater defect than occasional occurrence of inclusion of actions taken for transmission constraints, i.e. this may be swapping one perceived defect for another.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	As described above, we believe that any cashout mechanism should (1) be cost-reflective; (2) meet BSC objectives and (3) be transparent. The BSC Objectives do not mention simplicity and therefore for the calculation of the main imbalance price, simplicity (alone and above all) is not an essential driver for change. If an appropriate mechanism can be simple as well as cost-reflective then that is naturally desirable, however the electricity trading arrangements are not simple so we doubt if it is a realistic and achievable target. To explain our point further, parties face a choice between the costs of trading energy and related products bilaterally to meet their individual energy requirements, and the cost of being exposed to imbalance. Unless the imbalance price to which a party is exposed is equivalent to, or reflective of, the price it would have faced bilaterally to trade the same energy, it will not make efficient decisions. When the imbalance price is cost reflective, the market will decide the level at which it is more efficient for the System Operator to balance collectively: parties will trade forward where it is more cost-effective, and otherwise leave balancing to the SO. If the imbalance price is more expensive than the actual price of actions taken by the SO, parties will inefficiently spend too much bilaterally avoiding imbalance. If it is too cheap, then some parties will spend too little, and the actual cost must be inefficiently made up by others. Determination of a cost-reflective price is a pre-requisite to achieving efficient overall balancing (assuming the cost of such determination is much less than cost of balancing energy itself, which all evidence suggests is the case). 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 of ignoring the real constraints of plant dynamics and lack of perfect foresight. 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. This is at least as simple as the proposed method of using hypothetical volumes which meet essentially arbitrary criteria relating to apparent availability.

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Q	Question	Response	Rationale
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	As described above, we do not believe the imbalance prices created by P211 or its alternative will be more cost-reflective than the current arrangements. We believe the prices would on average be less expensive than necessary to properly reflect the cost of actions taken. (a) If individual parties face lower costs than those of the balancing actions taken on their behalf, there must be a risk either to (i) security of supply because they won't procure enough energy for all situations or (ii) to efficient balancing activity because the System Operator will have to procure actions which parties could have procured more cheaply themselves. (b) If individual parties face lower costs than those of the balancing actions taken on their behalf, the System Operator will have to procure actions which parties could have procured more cheaply themselves. This would not be efficient. Therefore BSC Objective B would not be better met. (c) If individual parties face lower costs than those of the balancing actions taken on their behalf, and the additional cost of actions taken by the System Operator are shared amongst all parties, then some parties must be subsidising others. If parties are not exposed to the cost of balancing actions taken on their behalf, then the ability of the System operator to balance the system efficiently will be reduced. Therefore BSC Objective C would not be better met. (d) The cost of implementing this proposal or its alternative would be considerable and no benefit in terms of ongoing administration of BSC activities is envisaged. Therefore BSC Objective D would not be better met.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	Both fall short of existing arrangements in meeting the BSC Objectives. Although the potential alternative takes into account some of the restrictions faced by the system operator actions (which exist in reality, so better reflecting the true costs of balancing when compared with the original proposal) we consider they both fall far short of the current arrangements.
5.	Do you believe	Yes	By taking into account some of the restrictions on available actions which exist in reality, so better reflecting the true

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Q	Question	Response	Rationale
	Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)		costs of balancing than the original proposal, the potential alternatives are slightly better than the original proposal. However, they fall far short of meeting the BSC Objectives and of being as cost-reflective as the current arrangements.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	The solution(s) may allow parties to declare differing dynamics on various plants in order to affect imbalance prices. If individual parties face lower costs than those of the balancing actions taken on their behalf, there will be a tendency for parties to balance less accurately. This will increase the cost of actions required to be taken by the System Operator. Since the additional cost will be less well reflected on those responsible, it will be shared amongst all parties, including those which do balance accurately.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes	Noting that we agree that expensive actions taken to resolve transmission constraints should not be considered reflective of the cost of energy balancing, solutions could be developed which seek to identify such actions individually and use substitute prices for them, in a cost-reflective and transparent manner.
8.	Do you support the	Yes	

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Q	Question	Response	Rationale
	implementation approach for the Proposed solution described in the consultation document? Please give rationale		
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	No	All volumes which have the potential to set prices should be reported, even if they did not actually set price.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	As described in our answer to question 1, little objective or robust analysis has been undertaken to identify the extent to which transmission constraints are affecting imbalance prices. Such analysis is necessary to determine the size of the perceived defect, and hence the magnitude of approximation to cost reflection which might be acceptable in potential solutions. The proposed solutions attempt to tackle a very complex issue using simple methods which, if implemented, are likely only to replace one perceived defect with another set of defects. Simplification should not be an objective in its own right; we believe cost-reflectivity, BSC objectives and transparency are the most important objectives.
11.	Are there any further comments on P211 that you wish to	Yes	See below.

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Q	Question	Response	Rationale
	make?		

Comments on specific points in consultation document:

Summary: The proposal purports to identify the 'least expensive Offers that the System Operator (SO) could have utilised on an unconstrained system'. Conventional interpretation of the term 'unconstrained system' is of a transmission system which places no restrictions on the flows of energy on it. The interpretation for P211 is of not only a transmission system without restrictions, but of generation and demand with no dynamic limitations.

2.2.1 'It has been shown that the current main Energy Imbalance Price calculation includes actions taken by the SO for reasons considered to be 'energy plus' even though a number of the current tagging mechanisms are used to try to remove some of these.'
There is no definition of what the current tagging mechanism is seeking to achieve. In our view, NIV tagging is seeking to identify those actions which could hypothetically have been used to balance the system in that period, with the benefit of foresight of the outturn imbalance (NIV), implicitly taking into account some of the real interactions between actions in different periods and the requirement to hold reserve to provide balancing actions at short notice. It assumes that the most expensive actions are those most likely to have been taken for so-called 'system' reasons. In the case of actions taken to resolve transmission constraints, this is a reasonable assumption, but the tagging process may not be successful in removing the effect of such actions on prices in all cases. In other cases, the approximations in the tagging process can ignore expensive actions taken for specific energy balancing reasons in that period, and instead use cheaper actions taken for more general energy balancing purposes ('energy plus').

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Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

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P211 ASSESSMENT PROCEDURE 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:	*Dave Wilkerson*
Company Name:	*Centrica*
No. of BSC Parties Represented	*9*
Parties Represented	Accord Energy Ltd; British Gas Trading Ltd; Centrica Barry Ltd; Centrica Brigg Ltd; Centrica KL Ltd; Centrica KPS Ltd; Centrica PB Ltd; Centrica RPS Ltd; Centrica SHB Ltd
No. of Non BSC Parties Represented (e.g. Agents)	*-*
Non Parties represented	
Role of Respondent	*(Supplier/Generator/ Trader)*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	No	We believe that it has been shown that at some times, in some periods, there are issues around either transparency of the actions that are being included in the cashout prices; or the inclusion of the actions themselves. If these are classed as the 'polluted' prices, we find it difficult, or even impossible, to quantify exactly how polluted those prices are. Even a separation along strict system/energy lines has been shown to be impossible – system actions all have an impact on overall energy balance as well. We believe that the current arrangements, broadly speaking, deliver a reasonably cost-reflective cashout price, for the vast majority of the time. For the industry to move away from this relative success to a synthetic, less cost-reflective methodology would be a mistake. Centrica would not be

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Q	Question	Response	Rationale
			unsympathetic to a wholesale change to cashout if it could be shown that the new regime would be cost-reflective, provide appropriate signals and relate to the costs incurred by the SO in resolving other parties' imbalances. P211 fails to do this.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	We do not believe that simplicity per se should be a criterion for setting imbalance prices. If a viable and cost-reflective methodology is developed that has the benefit of also being straightforward, then this would be an added bonus. As Ofgem stated in their decision letter for P194: "The cash out price should create incentives to balance based on a price that appropriately reflects the costs to the SO of resolving that imbalance. European legislation highlights the importance of appropriate signals to maintain the balance between generation and demand, and to ensure that imbalance rules are transparent, objective, non-discriminatory and cost-reflective." 'Transparent' is not synonymous with 'simple'. We believe that transparency could be improved in the market, and there is scope for increased information provision from the SO. This will hopefully be resolved via NGET's work on information transparency and Ofgem's SO review. We would also not subscribe to the notion that P211 is 'simple', which is implied in this question – it does remove some of the complexities of the current arrangements, but introduces others in their place.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	We believe that there is no impact on objective A (although the other objectives could be seen to be a subset of A). On objective B, we would expect that with a slightly dampened and less cost-reflective signal to balance the SO might have to take more actions to resolve overall imbalances on the system; thus reducing overall efficiency. With reference back to our response to question 1 above, we do not see

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Q	Question	Response	Rationale
			that a cashout regime that gets very close to a highly cost-reflective price for the vast majority of the time should be replaced by one that by definition is not cost-reflective of the actual actions taken by NGET to resolve imbalance. With regard to objective C, we believe that there is a danger with P211 that costs will be inaccurately targeted on market participants, thus reducing effective competition. We do not believe that there is an impact on objective D.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	No	While we believe that AP211 is an improvement on the original, we believe that it is not better than the current baseline. The original problem with the proposal remains – that it is less cost reflective than the current baseline (albeit less so). Secondly, adding the parameters suggested, while achieving better cost reflectivity, adds an unacceptable layer of complexity.
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Yes	As mentioned in the response to Q4 above, AP211 is an improvement to P211, as it takes into account physical parameters and therefore makes the proposal more cost-reflective. The design of P211 ensures that there will always be actions setting the price that could never be made in reality, and AP211 removes some of these actions.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes/No	As mentioned above, we would expect that a dampening of the signal to balance would result in the SO having to take more actions to resolve participants' imbalance positions. While this effect is difficult to predict and would be difficult to measure, it is likely to happen to a certain extent – there is nothing in the proposal which could have the effect of improving signals to balance. The underlying argument for P211 is that the actions in the EPUS stack provide a more cost-reflective imbalance price than the current arrangements, and we do not believe that to be the case – the price will be less cost-reflective therefore the price is likely to give incorrect signals; and from the analysis provided it seems that all prices will be dampened,

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Q	Question	Response	Rationale
			particularly over the peak. Both of these taken together show that the signal to balance is adversely affected by P211.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	Given that the majority of DAO/DAB's will be tagged out of the calculation, this seems a pragmatic solution.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	No	

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P211 ASSESSMENT PROCEDURE 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	
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	Transmission Company
Does this response contain confidential information?	

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	In order to answer this question it is necessary to understand what the proposer defines as a defect. If our understanding is correct then any action that does not mimic the procurement of a notional half hour aggregated volume of energy equivalent to the value of NIV is deemed to be pollution and should not be included in the imbalance price. If this definition is applied in assessing the activity undertaken to balance the system then a large proportion of the actions undertaken by the SO would fall into this category. Although not conclusive, analysis we have provided previously has estimated that in the year 06/07 approximately 70 percent of offers and 60 percent of bids that were used to resolve NIV were also used to manage other issues faced by the SO in balancing the system. For example actions taken to create reserve, actions taken to create response provision, intra half hour demand shapes and actions taken to resolve constraint issues. However it is important to differentiate between the reasons activity was undertaken and the impact that activity had on altering the imbalance price. A large proportion of activity taken to resolve the issues indicated would be taken in cost order. Again although not conclusive, this is demonstrated in the analysis provided to the cash out review meeting in March 2007 that roughly estimated that in November 2006 the average differential in costs that this activity caused had in relation to resolving a notional half hourly demand position was somewhere between 0 and 9% difference in the cost of offers accepted and somewhere between 0 and

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Q	Question	Response	Rationale
			7% difference in the cost of bids accepted.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	We do not believe that simplicity by itself is a measure on which to base the appropriateness of an imbalance price. Fundamentally an imbalance price should strive to be reflective of a determined set of costs or create incentives to drive behaviour in a desired direction. If these objectives can be achieved through an imbalance price that is simple then this is a substantial extra benefit that is likely to aid access to the market. However we do not believe it should be adopted at the expense of an imbalance price methodology that appropriately incentives parties to act in a particular manner. If this happens it simply creates an inaccurate cross subsidy of costs with inappropriate winners and losers and ultimately an inefficient market.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	We appreciate that the creation of an accurate imbalance price based on an EPUS is a difficult methodology to achieve. The development of rules to reflect such circumstances must balance simplicity and accuracy and will always introduce a level of approximation. However, we believe the disregarding of plant dynamics, in determining the accessibility of MWs, moves too far towards simplicity with the consequence that it compromises the accuracy and appropriateness of the price generated by the proposal. It allows plant that would not realistically be accessible to the system operator to be included in the unconstrained stack. Participants will be able to price these inaccessible volumes at a significant discount to the market value of energy at that time, safe in the knowledge that the SO could not physically procure them. This then enables participants to price these MWs in a manner to affect cash out prices without the need to sell at an unattractive, unreflective price. The physical impact of this price behaviour on National Grids ability to operate the transmission system in an efficient and economic manner is not certain. Predominantly, however, this impact will be driven by the influence this price methodology has on the behaviour of market participants. This then will impact on the manner in which participants manage imbalance risk. If the risk of imbalance is diminished, but the cost of resolving imbalance risk in the forward market stays the same, then it is likely that participants will be less likely to contract in the forward market. This reduced incentive to balance is likely to reduce the level of NIV. Although on average this may bring the average value of NIV closer to 0 the profile of NIV through out the day means that the market is likely to go shorter over the peak. This is a period of time when the market is already consistently short. As such the SO may need to resolve greater levels of imbalance at that time with an associated cost. We are also concerned that the lack of dynamic considerations introduces the possibility of inaccessible, unreflectively priced volumes being included in the price stack. This has the possibility to introduce a degree of random volatility into the price and this may drive volatility in the behaviour of market participants. In view of the above considerations we do not believe it will better facilitate object B.

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Q	Question	Response	Rationale
			This methodology is no doubt simpler than the current methodology. In as much as a simpler imbalance methodology reduces the barrier to market entry. This proposal may encourage new market entrants. However if the imbalance price does not provide the appropriate signal it is arguable whether this truly improves the competitiveness of the market. As such we do not believe, on balance, that this trade off better facilitates applicable objective C. This modification is simpler to understand and may be simpler to manage, as such this could better facilitate BSC objective D.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Yes	This alternative methodology, similar to the original, attempts to create an unconstrained stack that reflects the costs that the SO would incur in resolving a half hourly aggregated volume up to the value of NIV. The inclusion of dynamics makes this a more accurate interpretation of that aim. It also reduces the risk, as identified in the original, of unreflective prices being included in the stack. However this is achieved at the expense of greater complexity and cost to implement. Like the original, its ability to reflect short term market shocks in the price is more limited than the current baseline and as such the ability to respond to energy scarcity will be somewhat diminished. It does, however, remove the concern of inappropriate system actions polluting the price. The general level of NIV may be reduced as a consequence of this alternative and this may have implications for SO costs however we do not believe it will introduce the same volatility as the original and as such we do not believe it will be detrimental to BSC objective B Assuming that the P211 alternative produces a more predictable price does this improve competition? It would probably make the contracting, or non contracting, strategies of some market participants individually more economically beneficial. Also as much as the imbalance price can act as a factor in determining market entry then a more predictable price would provide more forward certainty. This greater clarity to manage the cost of imbalance risk could be beneficial for competition. However, if it does not provide the appropriate signal to balance, the incentive for the market to move in tandem with physical market scarcity is diminished. A more predictable imbalance price simply moves the cost exposure of system imbalance from those parties that were in imbalance to the wider market community. We

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Q	Question	Response	Rationale
			are unclear if this will be a significant issue but it remains a risk. However, on balance, we are of the opinion that there may be some improvement of the facilitation of BSC objective C
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Yes	The alternative proposal is more accurate than the original and reduces the opportunity for accidental, or deliberate, inappropriate prices to be included in the imbalance price arrangements. The inclusion of dynamic factors in the methodology also improves the ability, albeit not perfectly, for the price to respond to market shocks. However it achieves this at the expense of added complexity to the mechanism. However on balance we believe the trade off between these aims, which is an inevitable consequence of the introduction of such an imbalance price methodology, is weighted towards the alternative proposal.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent	Yes	Please see response to question 3

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Q	Question	Response	Rationale
	impact on the SO? Please provide rationale.		
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)?	Yes	

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Q	Question	Response	Rationale
	Please give rationale		
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	No	

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P211 ASSESSMENT PROCEDURE 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:	**Scott Keen**
Company Name:	**InterGen UK Ltd**
No. of BSC Parties Represented	**4**
Parties Represented	**RPCL, SPAL, CECL, IETS**
No. of Non BSC Parties Represented (e.g. Agents)	**0**
Non Parties represented	
Role of Respondent	**Generator**
Does this response contain confidential information?	**N**

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	The extent of the defect is evident when analysing the bids/offers accepted by the SO to balance the system. These can be out of merit for reasons which are not transparent to market participants. Where an action is taken due to transmission constraints it should be considered a system action and therefore tagged out of the stack, although it is impossible for a market participant to confirm that this always happens. In accepting bids/offers out of merit the SO increases the punitive effects of SBP and SSP, when less expensive options of balancing the system from an energy only perspective are available. Accordingly, participants are exposed to costs which are not reflective of the true costs of balancing the system. This particularly impacts smaller players who are less able to absorb exposure to punitive costs.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance	-	Simplicity is a benefit which should be sought to assist in the creation of transparency of actions or calculations and reduce admin costs. It is considered that the simplicity and transparency of introducing an

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Q	Question	Response	Rationale
	price?		unconstrained bid / offer stack would be an acceptable proxy for determining the cheapest cost solution for balancing the system.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	The proposed modification is a fairer representation of the prices and volumes available to the SO and should encourage *the efficient, economic and co-ordinated operation of the GB transition system.* The prices create a less volatile and more transparent pricing structure for the BSC parties thereby lowering one of the barriers to entry 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.*
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Yes	The proposed alternative modification is again a fairer representation of the prices and volumes available to the SO and should encourage *the efficient, economic and co-ordinated operation of the GB transition system.* The prices create a less volatile pricing structure for the BSC parties thereby lowering one of the barriers to entry 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.*
5.	Do you believe Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)	Yes	We believe the alternative modification addresses some of the shortcomings of the proposed modification as described in our response to Q6.
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	The proposed modification is open to manipulation through BMUs submitting BO data which is not actually available although still impacting prices due to strategic pricing combined with dynamic data. For example a unit with a 360 min NDZ can not be utilised for 360 although the BOD can be changed up to 60 mins before the start of a half hour. A BMU can therefore submit very low offer prices for the period between gate closure and the earliest time the unit can be offered. This may suppress prices for that period. This is addressed by the Alternative Modification. However the Alternative Modification is open to manipulation by the SO as there is not always the

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Q	Question	Response	Rationale
			incentive to choose cheaper option if those prices get tagged out due to being unavailable within gate close. The SO may choose to instruct a more expensive unit over a cheaper unit knowing the cheaper unit will not be included in the Imbalance Price due to the long NDZ and therefore a higher SBP will be set.
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	No	
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	No	The approach described in the consultation document leads to excess data computation and could lead to delays in the data being published.
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	Part of making the process as transparent as possible is having timely and reliable data. If only building enough of the DAOV/DABV stack to calculate the Energy Imbalance Prices prevents deterioration in the quality and timeliness of data published to the market then the trade off is justified.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
11.	Are there any further comments on P211 that you wish to make?	Yes	We fully support modifications which aim to reduce the punitive nature of system prices which are more detrimental in nature to smaller market participants. Larger participants have the luxury of generation portfolios that enable them to more easily balance and protect against inflated system prices.

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P211 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Name Kirsten Elliott-Smith*
Company Name:	*Immingham CHP LLP*
No. of BSC Parties Represented	*2*
Parties Represented	*Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).*
No. of Non BSC Parties Represented (e.g. Agents)	*ConocoPhillips UK Ltd; Immingham CHP LLP*
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant). -*
Role of Respondent	*Generator, Trader* [1]
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you have a view of the extent/impact of the perceived defect identified under P211? Please give rationale	Yes	Ofgem's P205 decision letter and analysis presented by National Grid at the 30 March cash-out review industry meeting shows there is significant pollution in energy imbalance under current pricing rules, and thus a clear defect. The defect operates in such a way as to systematically disadvantage smaller physical parties and non-portfolio players such as ICHP. Also see our response to Q10 below.
2.	What are your views on 'simplicity' versus 'cost-reflectivity' on the calculation of the main imbalance price?	-	Both are important. It is crucial that the basic approach to cash-out is transparent and comprehensible to the greatest extent possible and that prices can be verified where necessary, and smaller parties will naturally have a preference for simplicity.

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

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Q	Question	Response	Rationale
			Ultimately there will always be judgments about what is cost-reflective, but it is clear that there are real distortions under the current cash-out rules. If the design principle is to be causer pays, it is obviously important that only energy imbalance costs are allocated to the causer otherwise the charging mechanism will remain penal and discriminatory.
3.	Do you believe Proposed Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	The P211 original proposal results in less system pollution of the imbalance price, which must deliver benefits under objective (b) as a distorting cost signal will be removed. In practical terms this currently means that parties are routinely going longer than they need to be, resulting in actions being taken by the SO that otherwise would not be needed. This is not efficient. Competitive distortions in the current cash-out rules which bite disproportionately on smaller, non-portfolio players, would be reduced, facilitating objective (c). This element of cross-subsidy will be removed. The operation of the current cash-out rules are a barrier to entry. Over the longer-term more equitable cash-out rules such as proposed under P211 should facilitate new entry, also delivering benefits under objective (c). There is an argument in support of P211 under objective (d), but this is minor as the solution is still very complex.
4.	Do you believe potential Alternative Modification **P211** would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline? Please give rationale and state objective(s)	Neutral	The proposed alternative is opaque, not well described and its effects unclear. The analysis in support of it was delivered too late into the consultation process to be properly assimilated. While the principle of EPUS is an improvement, the alternative by applying a series of complex technical approximations applies this in such a way that erodes the benefits. Enhancements arising from (b) are more than off-set by disbenefits under (d). That said it could offer modest competitive improvements over the current baseline.
5.	Do you believe Alternative Modification **P211** would	No	See arguments in response to 4 above. The original is greatly superior.

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Q	Question	Response	Rationale
	better facilitate the achievement of the Applicable BSC Objectives when compared to the Proposed Modification? Please give rationale and state objective(s)		
6.	Do you have any views on how these solutions will influence market participants' balancing behaviours and any subsequent impact on the SO? Please provide rationale.	Yes	We do not consider that the incentive to contract will be impacted under the EPUS approach, especially during times of system stress. At the same time it will reduce incentives to go long (and therefore reduce costs that unnecessarily arise to the SO from dealing with this).
7.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? Please give rationale	Yes	The problems caused by the current tagging approach would be much better understood and could be greatly ameliorated if National Grid were able to develop a method for categorising acceptances as they occur. It is disappointing that the modification group has not taken a much closer look at what is the current price stacks. It is possible that the P211 solution could be modified to incorporate this feature though it is not strictly necessary for the solution.
8.	Do you support the implementation approach for the Proposed solution described in the consultation document? Please give rationale	Yes	We would urge implementation at the earliest practical point.
9.	Do you support the approach of only building enough of the DAOV/DABV stack to calculate Energy Imbalance Prices to ensure minimal impact on prompt prices (see section 3.5 of consultation)? Please give rationale	Yes	It is already difficult under the cash-out rules to get timely, clear data on system prices. It is fundamental that there is no further degradation of the timing and level of information available.
10.	Does P211 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	P211 substantively addresses the issue of system pollution of the energy price (and therefore one aspect of existing cross subsidy as the rental is recycled through RCRC to parties in balance). It does not however address the costs of within half hour actions, which are allocated in full to imbalance parties even though the causers will include parties who on an integrated half hour basis achieve greater balance. This is a serious defect of the current cash-out arrangements, which needs to be addressed.

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Q	Question	Response	Rationale
11.	Are there any further comments on P211 that you wish to make?	Yes	See comments to Q7 as these have a more general currency.

Parties are encouraged to provide financial information with regard to either the costs or benefits of the Modification Proposal to support the Assessment Procedure. Where requested this information can be treated as confidential, although all information will be provided to the Authority.

Please send your responses by **12:00 on Tuesday 28 August 2007** to modification.consultations@elexon.co.uk and please entitle your email '**P211 Assessment Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Modification Group.

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

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