Responses from P201 Assessment Consultation

Consultation Issued 11/07/2006

Representations were received from the following parties

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Good Energy Ltd	P201_AC _001	1	0
2.	Barclays Bank plc	P201_AC _002	1	0
3.	SAIC Ltd. (for and on behalf of ScottishPower)	P201_AC _003	7	0
4.	E.ON UK Energy Services Limited	P201_AC _004	0	1
5.	E.ON UK plc	P201_AC _005	13	0
6.	British Energy	P201_AC _006	5	0
7.	EDF Energy	P201_AC _007	9	0
8.	National Grid	P201_AC _008	1	0
9.	Gaz de France ESS	P201_AC _009	1	0
10.	RWE Npower	P201_AC _010	11	0
11.	International Power plc	P201_AC _011	4	0
12.	Utilita Electricity Ltd	P201_AC_012	1	0
13.	Total Gas & Power Limited	P201_AC_013	1	0
14.	Airtricity	P201_AC_014	1	0
15.	Centrica	P201_AC_015	9	0
16.	BizzEnergy Limited	P201_AC_016	1	0

P201 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:	*Chris Welby*
Company Name:	*Good Energy Ltd*
No. of BSC Parties Represented	*1*
Parties Represented	Good Energy Ltd
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*Supplier*
Does this response contain confidential information?	*N*

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	The present arrangements meet BSC objective B at the expense of BSC objective C. This modification redresses this imbalance of emphasis between the two objectives
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	Yes	Both do for the reasons above

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Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes/ No	BSC objective A requires NGC to be non-discriminatory. alternative 2 to extend the tolerance band to all parties meets this objective, better than the original modification
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes / No	
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	Yes	For the reasons given in the consultation Document
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	No	Price should not contain the 10% premium
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	It will increase the likelihood of smaller parties remaining in the market
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	The most sensible solution would be to delay implementation of P194, however, if this is not option then the implementation approach proposed is the best option.
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes / No	

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Q	Question	Response Error! Bookmark not defined.	Rationale
11.	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	
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
13.	Are there any further comments on P201 that you wish to make?	Y No	
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201/ P202	Preference is for P202. Modification P194 increases the instances of a negative SSP, so it makes sense cover both long & short positions

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 **15:00 on Tuesday 25 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P201 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 Tom Bowcutt on 0207380 4309, email address thomas.bowcutt@elexon.co.uk

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P201 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	Paul Dawson
Company Name:	Barclays Bank plc
No. of BSC Parties Represented	1
Parties Represented	Barclays Bank plc
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	Trader
Does this response contain confidential information?	

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	The modification is predicated on arguments about the lack of liquidity and the granularity of trades "with standard quantities only being available in minimum tranche trades that are typically greater than the purchase requirements of many small suppliers". However, the minimum lot size on APX is 1 MW (0.5 MWh) and the analysis of the modification provided by APX indicates that nearly all offers are capable of being accepted in 1 MW increments, that there are offers outstanding for virtually all periods and that offers are routinely accepted at this resolution. At best therefore, any justification for a tolerance threshold based on the fact that suppliers cannot buy at sufficient granularity could only extend to a 0.5 MWh threshold and not to a 20 MWh threshold. Consequently, we are not convinced that a defect has been adequately demonstrated nor that the modification is a proportionate response to any such defect stemming from

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Q	Question	Response Error! Bookmark not defined.	Rationale
			this source. Not only is the described defect questionable, but the Modification clearly undermines effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity (BSC Objective C) in the following respects: • The modification would have the unintended consequence of giving an undue competitive advantage to small suppliers which, in turn, could promote undue entry of small suppliers. According to the modification proposal, "an existing supplier with a 1% market share and a requirement for 3% extra energy in a half-hour, a not untypical quantity given the short-run sensitivity of demand to temperature, would require about 7 MWh in an average half-hour". Extending this logic, a supplier would have to have a 3% market share before a typical imbalance was subject to the main imbalance price. This raises the prospect of multiple supply companies being created with substantial cumulative market shares, but which were individually just below the threshold for facing full imbalance charges. While the proposed affiliate rules would prevent an existing supply portfolio being fragmented in this way, they would be powerless to stop the creation of new unaffiliated "cloned" supply companies by individuals. While this would undoubtedly increase the number of participants in the market, and supply competition, this would not represent *effective* competition because it would reflect an inherent cross-subsidy to entry from market participants more widely to these new entrant suppliers. • The modification discriminates between suppliers and generators and traders. Any imbalance on the system, irrespective of the source, imposes the same additional balancing costs on the system and yet the proposal would result in suppliers paying a different price for some of

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Q	Question	Response Error! Bookmark not defined.	Rationale
			their imbalances. This would distort competition, eg, in the case of a trader who was providing balancing services to a supplier by the reallocation of their meter readings to the trader's consumption account (which would not receive a tolerance band) when compared to a supplier providing the same service to another supplier (who would receive a tolerance band). The Modification also fails to better facilitate BSC objectives (b) "the efficient, economic and coordinated operation by the Transmission Company of the Transmission System". As the main price under P194 will reflect the opportunity cost of balancing the system, it sends the correct signal to market participants to balance, ie, in making an appropriate trade off between the likely volume – and direction – of imbalance versus the cost of buying (or selling) in the market. Any other price <u>by definition</u> will send an insufficient signal (if lower than the main price) or too strong a signal (if higher than the main price). The proposal results in an inefficiently low balancing signal for imbalances within the tolerance band and the cumulative effect across all suppliers would be to require significantly greater – and hence inefficient – balancing actions to be taken by the system operator. This would ultimately result in higher than required balancing prices at times of shortage, which would in turn distort prices along the forward curve. The claim that the 10% differential will "maintain incentives to balance" is not relevant to the assessment of this proposal against the objectives since the objective relates to an <u>efficient</u> incentive to balance, not an <u>absolute</u> incentive. For example, a SBP of £1m/MWh would certainly provide <u>an</u> incentive to balance, but it would hardly be an efficient one. Similarly, if the 10% differential was sufficient to "maintain incentives to balance" then the logical extension would be to set the Main Price = Market Price + 10%

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Q	Question	Response Error! Bookmark not defined.	Rationale
			for all imbalances and not just a tolerance band. For similar reasons, it is irrelevant to claim that the modification would reduce the "incentive for suppliers to take a long(er) position to avoid System Buy Price, thereby reducing the overall costs of balancing the system". If the Main Price correctly reflects the efficient opportunity cost of balancing the system (as it will do under P194), then market participants should be making an efficient trade off between the expected cost of imbalances (based on the probability of being out of balance and the likely price) versus the cost of buying additional electricity in the forward markets. If this – on average – results in a long system – associated with the asymmetry between the cost of being short versus the cost of being long, then that is the efficient outcome. Any dilution of the balancing signal would therefore result in insufficient (and inefficient) length rather than efficient length. Again the flaw in this argument can be demonstrated by extension: setting SBP at zero would certainly reduce the "incentive for suppliers to take a long(er) position to avoid SBP", but in doing so would remove any incentive to buy in forward markets at all.
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	No	Both the potential alternative retain the same structure of a tolerance band and for the reasons described above this would not improve on the current baseline.

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Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	No	The arguments made in relation to the relative size of suppliers both in the justification of P201 and in the development of the first alternative modification (restricting the tolerance band to smaller suppliers) largely serve to undermine and weaken the case for the modification. They are predicated on the proposition that small suppliers can only achieve balance at a "disproportionate cost" because the "volumes required by suppliers are not available at a cost at which small suppliers are able to compete effectively". At the margin, both large and small suppliers face essentially the same, proportionate, sources of unpredictable variation in their load and all suppliers ultimately have to balance to the same resolution (and even vertically integrated suppliers face the same opportunity cost of generating rather than buying in the market in balancing their position). The fact that this imbalance may account for a smaller or larger percentage of a suppliers' total load has no bearing on the appropriateness of the balancing signal faced by suppliers at the margin and is merely a reflection of a suppliers' size than evidence of a defect in the balancing and settlement rules. Put another way, the balancing and settlement arrangements should never be used to address differences in the competitive conditions faced by different market participants. (To do so would raise an unwelcome precedent in terms of whether we should tailor the cash-out price to a participant's credit standing, corporate structure etc.) While the extension of the application of the tolerance band to all parties (Alternative Modification 2) would remove the discriminatory element of the proposal (and hence better meet objective c), in doing so, it would significantly extend the volume of imbalances shielded from paying the full imbalance price, thereby undermining the achievement of objective b further. The latter effect in undermining balancing incentives across the board, is likely to be significantly more detrimental than removing the discriminatory element of the proposal.

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Q	Question	Response Error! Bookmark not defined.	Rationale
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	No	The trading group concept is likely to be insufficient to prevent the creation and entry of new, unaffiliated supply businesses to take advantage of the tolerance bands. Restricting the application to groups involving one registered supplier fails to address the discrimination highlighted in response to question 1 above (ie, the tolerance band can be allocated to the consumption account of a Trading Party ID in the case of a group including a supplier, but not to a Trading Party ID that is not part of a group, but which nevertheless may be managing the imbalance exposure for an unaffiliated supplier).
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	No	20 MWh significantly exceeds the available granularity of trades of 0.5 MWh. Even if a tolerance band was deemed necessary, the available evidence suggests that it should no larger than 0.5 MWh in any circumstances (and even then, concerns that the threshold could prevent the development of products at smaller resolutions than 0.5 MWh could potentially justify an even smaller threshold).
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	No	No price other than the main imbalance price will provide an appropriate incentive to balance.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	Suppliers will have a reduced incentive to protect themselves against imbalance exposure via market purchases and the modification could lead to the structuring and entry of small, unaffiliated supply businesses.

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Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	It is crucial for market transparency to know what every participant is paying for imbalances.
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
13.	Are there any further comments on P201 that you wish to make?	No	
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201	Although P202 has the apparent benefit of "symmetry" it achieves this by doubling up on the distortion associated with moving away from using the main price as the primary balancing signal.

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P201 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	Gary Henderson
Company Name:	SAIC Ltd. (for and on behalf of ScottishPower)
No. of BSC Parties Represented	7
Parties Represented	Scottish Power UK plc, ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	N/A
Role of Respondent	Supplier / Generator / Trader / Consolidator / Exemptable Generator / Distributor
Does this response contain confidential information?	No

Q	Question	Response	Rationale
	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	ScottishPower do not believe that P201 better facilitates the applicable BSC Objectives. **Objective (b)** ScottishPower believe that this Modification will result in a reduced incentive for certain Parties to be in balance. Under the proposed regime it may be more cost effective for smaller Parties, whose imbalance is close to the Tolerance band, to be out of balance, pay the Tolerance Price and let the market pick up the true cost to balance. This would lead to an increased number of balancing actions by the System Operator, in turn leading to increased balancing costs for more responsible Parties. We do not believe that the proposed 10% premium will sufficiently

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Q	Question	Response	Rationale
			incentivise these Parties to be in balance, as the Modification inherently leads to more imbalances. An unbalanced system cannot be described as efficient and economic to operate. **Objective (c)** One of the effects of the implementation of this Modification will be the introduction of a subsidy on balancing charges against larger Suppliers and all Generators (small and large). Smaller Suppliers will be shielded from large portion of their true charges, while the increased cost of keeping the system in balance is passed back to larger Parties. ScottishPower do not believe that there is a problem with the availability of suitably small volume trades in the current market; however this Modification will actually cause a reduction in number of small products available on the market, effectively reducing market liquidity and competition. This Modification brings a benefit to Suppliers and not Generators, and is therefore discriminatory and anti-competitive. **Objective (d)** Central system changes are expensive with no quantifiable benefit to parties – this is clearly not efficient.
	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	No	ScottishPower believe that neither Alternative Modifications better facilitate the achievement of Applicable Objectives compared to the current baseline **Objective (b)** ScottishPower believe that both Alternate Modifications will result in a reduced incentive for Parties to be in balance, potentially leading to an increased number of balancing actions by the System Operator, leading in turn to increased balancing costs for Parties. The system will be less efficient and

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Q	Question	Response	Rationale
			economic to operate. **Objective (c)** Alternate 1 discriminates more heavily in favour of small suppliers, detrimental to competition. Although Alternate 2 levels the playing field in terms of the types of Parties which qualify for inclusion under this scheme, the fixed band width of 20MWh still discriminates in favour of small Parties. Small players could effectively have their entire portfolio charged under the Tolerance band, whereas large Parties may only have a small percentage of their portfolio charged at this rate, again detrimental to competition. **Objective (d)** Central system changes are expensive with no quantifiable benefit to parties – this is clearly not efficient.
	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes	ScottishPower believe that Alternative Modification 2 better facilitates the achievement of Applicable Objectives compared to the Proposed Modification. **Objective (c)** Alternate Modification 2 levels the playing field in terms of the types of Parties which qualify for inclusion under this scheme, reducing the level of discrimination shown under the Proposed Modification. However, the fixed band width of 20MWh still discriminates in favour of small Parties. Small players could effectively have their entire portfolio charged under the Tolerance band, whereas large Parties may only have a small percentage of their portfolio charged at this rate, detrimental to competition.
	Do you have any comments on the draft legal text?		

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Q	Question	Response	Rationale
		No	
	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	ScottishPower accepts the group's proposed qualification criteria as the most economical and appropriate solution. It will ensure that only appropriate Parties are eligible for inclusion under this scheme, avoiding any manipulation of the process.
	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	No	ScottishPower believe that the proposed Tolerance Band of 20MWh is **not** appropriate. A fixed volume band width discriminates in favour of small Parties. If a Small Supplier simply did nothing to balance their position, they could effectively have most, or their entire portfolio charged under the Tolerance band rate, whereas large Parties may only have a small percentage of their portfolio charged at this rate. Furthermore, we believe that there should not be a tolerance band, as any Tolerance Band would provide less of a signal for Parties to adequately balance their position, which is one of the main principles of NETA/BETTA.
	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	No	ScottishPower do **not** believe that the entire concept of a Tolerance Price is appropriate. Parties should be liable for the cost of balancing the system resulted and associated with their own imbalance position. However, we are of the opinion that the proposed 10% premium is not appropriate. The overwhelming signal to Parties should be one that encourages balance, and a 10% premium does not sufficiently incentivise Parties to this end. Further analysis is required; however our initial rough analysis shows that the average daily difference between Market Price and Imbalance Price is closer to 30%. The modification should more accurately

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Q	Question	Response	Rationale
			reflect this truer difference. The premium should be closer to this figure. This would incentivise Parties to balance in most circumstances, and protect them in extreme scenarios.
	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	ScottishPower believe that P201 may encourage smaller Parties to reduce their effort to balance. It is possible that they will find it more cost effective to simply be out of balance (within the Tolerance band), than try and trade themselves to a balanced position. As a consequence, generators may stop offering products below the 20MWh level which could have a detrimental effect on the systems ability to balance efficiently.
	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	No	ScottishPower do not believe that it is a viable option on the basis that the use of a manual workaround of this nature is fraught with potential risk to the entire market. This may leave Parties in an uncertain position, unable to fully validate their Trading Charges. The Consultation suggests that this workaround could be in operation for a minimum of three months, and potentially for up to 7 months. Any manual process running for that length of time has the potential to cause large problems for all Parties. Without knowing what the proposer's position is, we do not believe the cost and risk to the rest of the market are justified to consider this approach.
	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	ScottishPower believe that the market requires access to all pertinent information to enable Parties to best manage their affairs.
	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered?	No	

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Q	Question	Response	Rationale
	Please give rationale		
	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
	Are there any further comments on P201 that you wish to make?	Yes	P201 (and its Alternatives) go against the whole ethos of NETA/BETTA, reducing the signal for Parties to be in balance. However, ScottishPower recognise the risks on smaller Parties associated with the introduction of P194 and, mindful of the costs to all Parties when a Party defaults, we would support a solution to mitigate this risk. But we do not believe that P201 is a solution to the proposed defect. A better solution would be the P205 Proposal which is simpler, equitable and potential flexible. This will provide a more acceptable balance between making Parties responsible for their own actions, and protecting them from crippling imbalance charges and potential default this winter.
	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201	ScottishPower believe Modification P201 is more preferable to P202 because it has less of a negative impact on the issues described above than P202. P202 moves further away from Parties being responsible for their own Imbalance costs, which we believe is not the correct way forward.

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Respondent:	*Name*
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?	

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes / No	We wish to retain a neutral position in response to this consultation as none of our activities are directly affected by the modifications.
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	Yes / No	Please see question 1

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Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes/ No	Please see question 1
4.	Do you have any comments on the draft legal text?	Yes / No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes / No	Please see question 1
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	Yes / No	Please see question 1
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	Yes / No	Please see question 1
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes / No	Please see question 1
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes / No	Please see question 1
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes / No	Please see question 1

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Q	Question	Response Error! Bookmark not defined.	Rationale
11.	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	Please see question 1
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	Yes / No	Please see question 1
13.	Are there any further comments on P201 that you wish to make?	Yes / No	Please see question 1
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201/ P202	Please see question 1

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Respondent:	*Name* Ben Sheehy
Company Name:	E.ON UK plc
No. of BSC Parties Represented	13
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)	Citigen London Ltd., Cottam Development Centre Ltd., E.ON UK Ironbridge Ltd., E.ON UK plc, Economy Power plc, Enfield Energy Centre Ltd., Midlands Gas Ltd., Powergen Retail Ltd., TXU Europe (AH Online) Ltd., TXU Europe (AHG) Ltd., TXU Europe (AHGD) Ltd., TXU Europe (AHST) Ltd., Western Gas Ltd.
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] *)*
Does this response contain confidential information?	No.

[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
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	~~Yes~~ / No	P201 would not better facilitate Objectives (b) or (c). It would not better facilitate Objective (b) as it would weaken BSC Parties' incentive to balance their positions. Currently, all short imbalance volumes (in a short market), no matter how small, are subject to System Buy Price. From analysis of data for almost 3 years from April 2003, we estimate that Main System Buy Price has on average been circa 60% higher than the Market Price. Exposure to SBP therefore focuses Parties' attempts to correct even very fine imbalances. The proposed P201 Tolerance Price would be only 10% higher than the Market Price, which equates to a significant softening of the current (pre-P194) balancing regime. This could have two consequences. Firstly, it could result in Parties tolerating marginally larger imbalance volumes, which would aggregate into a larger overall system imbalance each Settlement Period. Secondly, it could result in fewer smaller trades being offered on the forward markets, reducing the number of balancing products available to the detriment of the efficient operation of the Transmission System. It would not better facilitate Objective (c), as it would create an uncompetitive 'Nursery Market'. At 20 MWh the Tolerance Band would create two classes of supplier: smaller Parties would be able to operate largely within the Band, would be able to cost their businesses more accurately and would be exposed to cash-out prices far lower than at present; all other Parties would have a small proportional benefit from the Band but would be exposed to full System Buy Prices, which are likely to be more volatile after the implementation of P194. As different parties with identical proportions of imbalance could be exposed to significantly different rates of imbalance price, this would result in undue discrimination in favour of small suppliers, who would gain an unfair cost advantage.

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Q	Question	Response	Rationale
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	~~Yes~~ / No	Alternative 1, 'Restriction to "small" suppliers', would be even more unduly discriminatory than the original, as only arbitrarily defined Parties would have the great advantage provided by protection from SBP. Considering the advice provided by ELEXON in Appendix 8 of this Consultation, this discrimination would be to the detriment of Objective (c) (Appendix 8 attachment, paragraph 3.8). Alternative 2, 'Extend Application of Tolerance Band to all Parties', would not better facilitate Objective (b) as it would reduce Parties' incentive to balance in the same way as the Proposed Modification.
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes/ ~~No~~	Alternative 2, 'Extend Application of Tolerance Band to all Parties', better facilitates Objective (c) compared with the Proposed Modification as all Parties would benefit from a Tolerance Band. However, it would still result in discrimination in favour of small parties in a similar way to the original proposal. Therefore, it does not better meet the Applicable Objectives than the current baseline.
4.	Do you have any comments on the draft legal text?	~~Yes~~ / No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	~~Yes~~ / No	In order to effectively promote competition, the BSC should not discriminate in relation to the relative size of Parties. Therefore every Trading Party should be eligible for a Tolerance Band, regardless of the composition of the Trading Party Group. The BSC should not be concerned with how companies legitimately structure their businesses. The proposed qualification criteria will disproportionately benefit smaller Trading Party Groups and independent Trading Parties as most or all of their business would be protected from Main cash-out prices, meaning they would operate within a significantly lower risk and lower cost environment.

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Q	Question	Response	Rationale
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	~~Yes~~ / No	It is an arbitrary volume. Analysis provided by APX Power Limited demonstrates that, even in times of system stress, small volume products are readily available.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	~~Yes~~ / No	A 10% premium would soften the current balancing regime significantly. Our own research demonstrates that the current premium between Market and Main Buy prices is typically circa 60%. The argument for P201 is that P194 will present the industry with prices that smaller suppliers will be unable to manage. However, the proposed solution is to allow small suppliers to enjoy System Buy Prices which are significantly less volatile than present pre-P194 prices. Therefore, even if you accept that smaller suppliers should be protected in this way, which we do not, the proposed level of relief is disproportionate.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes / ~~No~~	With a Tolerance Price substantially cheaper than SBP, larger Parties may tolerate small imbalances. Furthermore, larger Parties may be less inclined to trade volumes under 20MWh.
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	~~Yes~~ / No	The BSC Administrator for E.ON UK has indicated that the workaround would result in the company incurring higher costs.
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes / No	Although changes to the BMRS are likely to result in considerable costs for BSC Parties, we do not have a view on this question.
11.	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~~	The increase in price volatility anticipated after the implementation of P194 could be tempered, with the incentive of Main prices retained, by widening the PAR volume; an option to be considered by Modification Proposal P205.

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Q	Question	Response	Rationale
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	~~Yes~~ / No	
13.	Are there any further comments on P201 that you wish to make?	Yes / ~~No~~	The Consultation Document describes the tools available to Parties to avoid imbalance. It is noted that larger players have the option to deploy their own generation. While in some instances this may be valid, the text does not highlight the considerable additional risk that this option produces. For suppliers, imbalance risk arises mainly from demand forecast errors. However, for generators the main risk is associated with the possibility of a generating unit or station tripping off the system. Plant trips are likely to be significantly greater in size than demand forecast errors leaving generators far more exposed to Main cash-out prices.
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201/ ~~P202~~	Neither Proposal is preferable to the baseline. However, in a direct comparison, P201 is preferable, as P202 would further extend the inefficient and uncompetitive aspects of the Tolerance Band, as described in the answer to question 1 above.

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 **15:00 on Tuesday 25 July 2006** to modification.consultations@elexon.co.uk and please entitle your email '**P201 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 Tom Bowcutt on 0207380 4309, email address thomas.bowcutt@elexon.co.uk

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P201 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:	*Louise Allport*
Company Name:	*British Energy*
No. of BSC Parties Represented	*5*
Parties Represented	*British Energy Power & Energy Trading Ltd, British Energy Generation Ltd, British Energy Direct Ltd, British Energy Generation (UK) Ltd, Eggborough Power 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

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Q	Question	Response	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	British Energy does not believe that there is a defect within the BSC as stated by modification proposal P201. If there is a problem (and we remain unconvinced of this) then it lies within the wider electricity market which is outside the remit of the applicable BSC objectives. The proposal is addressing a symptom and not the root cause. Notwithstanding the above statement, we have the following comments to make on modification proposal P201: • The use of a tolerance band is not consistent with the fundamental principle of the Balancing Mechanism that the costs of balancing should be borne by those who cause the imbalance. • A reduced incentive to balance consumption accounts up to the size of the tolerance band could lead to a higher level of balancing actions taken by the system operator and consequently increased BSUoS costs which would be charged across all BSC Parties and not those benefiting from the tolerance band. • Implementation of a tolerance band may act to reduce liquidity in the spot market for products less than the size of the tolerance band. • The APX analysis does not support the Proposers assertion that there is not sufficient granularity in the spot market as 97.3% of orders in the Spot and Prompt market are able to be matched in increments of 1MW. • The data provided by APX would not support the assertion that there is insufficient liquidity in the spot market. The volumes traded haven't decreased over the period studied (May 05 to May 06) and the over 25% of matched trades are less than 10MW. • P201 is unduly discriminatory as it only applies to a subset of BSC Parties creating an undesirable cross subsidy.

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Q	Question	Response	Rationale
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	No	Alternative 1: Restrict to 'Small' suppliers See comments on Q1. While this option presents the minimal overall volume with weakened incentives to balance it is more discriminatory than the original. Alt 2: Extend to all Parties See comments on Q1. This alternative will act to increase the amount of imbalance volume that would be subject to reduced incentives to balance. This further exaggerates the problem of the costs of balancing the system will not be borne by those causing them. Extending the criteria to cover generators also introduce an incentive for non-delivery of BOAs.
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	No	
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	It appears to overcome the problem of multiple qualifying supplier accounts within a trading group but still open to gaming if independent companies are formed (unlikely but possible)
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	No	The justification for the 20MWh Tolerance Band seems questionable given the evidence put forward by APX.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	No	The 10% is an apparently arbitrarily chosen number by the Proposer. We feel that it provides excessive hedging against the Main Price and undermines the incentive to balance.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	See comments on Q1

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Q	Question	Response	Rationale
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	No	Whilst the workaround solution is the only option for implementation before Winter 06/07 we believe that this would introduce excessive risk and would support normal implementation.
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	No	Given the simplicity of the Tolerance Price calculation from information already provided by BMRS we do not believe it is cost efficient report the Tolerance Price.
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
13.	Are there any further comments on P201 that you wish to make?	No	
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201	Whilst we support neither of these modifications, we feel that P201 is marginally preferential as less volume would have a reduced incentive to balance under this proposal.

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P201 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
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; London Energy plc; Seeboard Energy Limited
No. of Non BSC Parties Represented (e.g. Agents)	0
Non Parties represented	0
Role of Respondent	Supplier/Generator/ Trader/Distributor
Does this response contain confidential information?	No

Q	Question	Response Error! Bookmark not defined.	Rationale

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Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	The APX paper would seem to suggest that there is sufficient granularity in the Prompt Electricity Market for smaller players to balance their portfolios at competitive prices. In the analysis provided, out turn System Buy Price was almost always higher than Market Price, and a high proportion of traded volumes were lower than 40MW (i.e. 20MWh in a Settlement Period). We do however agree that there would seem to be a general lack of liquidity in the traded markets which affects all players. We are concerned that the introduction of a tolerance band into the BSC could lower the incentive for qualifying parties to balance their positions. This would result in the System Operator having to take more residual balancing actions, the costs of which would be smeared across all parties through BSUoS. This would be detrimental to Objective B. It is likely that the introduction of a tolerance band could actually further reduce liquidity in the traded markets as parties will have a lower incentive to trade out their position. This in turn could reduce the promotion of competition in the sale and purchase of electricity which would be detrimental to Objective C. In applying the tolerance band to Consumption Accounts only, this Modification could also give Suppliers a competitive advantage over generators. The complexity and high implementation costs associated with this change would reduce the efficiency of the balancing and settlement arrangements which would adversely affect Objective D. This is even more so with the manual implementation approach that has been proposed.

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	No	See question 3 below.
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	No	Although extending the Tolerance Band to cover all parties would remove some of the discriminatory aspects of the Modification (thus better facilitating Objective C), it would also potentially increase the number of residual actions that the System Operator has to take which would be more detrimental to Objective B. There would also have to be additional amendments to the BOA non-delivery rules to ensure that parties are incentivised to deliver these volumes. Restricting the tolerance band to small players would make the Modification even more discriminatory and there would be additional complexity in achieving this.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	It is a practical solution that would stop companies from re-structuring their businesses to take advantage of multiple tolerance bands.
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	No	Although the Proposer has provided some justification for this figure, the APX analysis would seem to suggest that this is too high.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	Yes	Providing there is an incentive for a qualifying party to trade out their position in the market then any premium should be appropriate as long as this is also greater than any transaction costs that would occur as a result of trading in the market.

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Q	Question	Response Error! Bookmark not defined.	Rationale
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	It is highly likely that the introduction of a tolerance band would influence a participant's behaviour as there is less of an incentive (as compared to the current baseline) for that party to trade out their position in the market. We accept that the 10% premium will provide some incentive, but this will still be weaker than that provided by the current rules.
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	No	As indicated in our response to the implementation consultation, we are not comfortable with any manual approach. This would add both substantial cost and uncertainty to trading parties.
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	No	It would not be difficult for parties to calculate the tolerance price in any settlement period, and as changes to the BMRS form a significant part of the costs for this Modification, it would seem prudent not to provide the information in this way. Elexon could however publish this additional data on their "Best View Prices" spreadsheet; this would make it publicly available at a much lower cost to industry. It is important though that the additional pricing information is included in the relevant settlement reports (SO141, SO142 and SO143).
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	However there is another outstanding Modification (P205) that could mitigate some of the impact of P194 from November.
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	

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Q	Question	Response Error! Bookmark not defined.	Rationale
13.	Are there any further comments on P201 that you wish to make?	Yes	Whilst we are sympathetic of the concerns of smaller suppliers, especially in light of the implementation of P194, we do not believe that this is the appropriate way to mitigate its impact. We would also like to note that imbalance prices for a number of periods on the 18th and 19th of July 2006 again clearly show that the incentive to balance is already provided by the current cash out arrangements. If P194 had been in place there would have been a significant number of periods where the main price was set by a single trade, a concern that was raised by Ofgem as part of its Impact Assessment for P194. System Buy Price would also have been over £500/MWh for a number of Settlement Periods on both days, and would have reached £1,000/MWh in Settlement Period 26 on the 19th of July. In light of these potential effects, it is not surprising that we are now seeing a number of Modifications to counter this unwelcome change.
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201/ P202	We do not prefer either Modification.

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P201 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	1
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 Error! Bookmark not defined.	Rationale

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Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	This BSC modification will have a detrimental impact on BSC objective b in that it will diminish the incentive to balance, cause the System Operator to increase the number of actions taken to balance the system and consequentially introduce greater cost into the industry. This modification may sustain, or increase the number of suppliers into the market. However, if this level of market participation can only be sustained by the discriminatory socialisation of certain parties' imbalance costs, it is questionable as to whether this is really promoting effective competition in the generation and supply of electricity. This modification will reduce the liquidity in the spot markets as the incentive to balance is diminished. As such it will reinforce the very problem described in the modification. This cannot be beneficial in promoting competition in the purchase and sale of electricity. Certainly from this perspective this modification is detrimental to objective c.
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	No	We do not believe either of the alternative proposals better achieve the applicable objectives as they both still create a distortion on the incentive to balance and as such still generate uncertainty in the predictability of participant behaviour. This in turn will lead to the need for greater System Operator activity and consequentially will lead to greater costs for the market.
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes	We believe Alternative 1 is least detrimental to the applicable objectives followed by the original and then Alternative 2
4.	Do you have any comments on the draft legal text?	No	

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Q	Question	Response Error! Bookmark not defined.	Rationale
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	No	It is unclear to us how a supplier with an expected energy requirement of up to 750MWh per settlement period could be classed as small in these circumstances. Whilst accepting that the determination of small is a relative term in this modification, we would make the observation that 750MWh or 1500MW is a larger value than the capacity of the majority of large power stations operating in the UK electricity market at this time. As such we do not believe this is a sensible value for defining small in this context.

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Q	Question	Response Error! Bookmark not defined.	Rationale
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	No	It is hard to judge whether 20MWh is an appropriate value given that it is not clear what this tolerance band is explicitly trying to achieve. The working group cited the example of a supplier with a customer base of less than 0.5MWh. Given this is the minimum resolution that energy can be traded on the APX, they would have difficulty procuring the correct level of energy to accurately manage their position. This appears to identify an issue. However the jump to 20MWh seems to be based more on perceived unfair commercial disadvantage rather than any hard quantified size barrier to entry to the market. Initially we assumed that 20MWh was either a minimum volume at which energy can normally be traded, or the average size of trades transacted. However, from the evidence presented by APX related to the size distribution of trades that pass through that exchange, we are having difficulty concurring with this view. Given that the assumptions behind the proposed 20MWh assumption appear to be misinformed, the issues driving this modification appear more subjective. We would suggest that if a tolerance band is to be implemented then 1MW is the most appropriate value.

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Q	Question	Response Error! Bookmark not defined.	Rationale
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	No	One of the principle arguments made in support of this modification is the current inability of relatively small suppliers to compete on price in the market with other larger participants. The cause for this has variously been cited as a lack of forward market liquidity, or that the prices at which these volumes have been offered at are in excess of a level at which the rest of the market can achieve. This effectively causes the market to become illiquid for these suppliers. This would suggest that by trading in the forward market these small suppliers would pay a premium on the general market price. Therefore MIDP actually reflects a discount on a small suppliers achievable price. The size of this discount must be offset against any tolerance band premium to understand its true influence on the incentive to balance. Coupled with any other direct or indirect costs avoided by not actively balancing an energy account the question must be asked to what extent this 10% represents real premium or simply a transfer of existing costs incurred. As such we have concerns that this 10% increase will not be sufficient to maintain the incentive to balance.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	As demonstrated in the reasoning above, this modification will diminish the incentive to balance on all parties that can take advantage of this tolerance band. The very fact that the ratio of risk and reward is altered will have implication for parties' risk management strategies and their consequential market behaviour.
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	

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Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
13.	Are there any further comments on P201 that you wish to make?	Yes	We do not believe the issues described amount to a defect in the BSC or that the solution is an improvement to the current baseline. The concerns expressed in this modification relate predominantly to a purported lack of liquidity in the forward market and the disproportionate effect this purported lack of liquidity has on a specific sub set of industry participants. However these concerns appear to arise as a consequence of market structure, not market rules. P202 also introduces cross subsidisation into the market as a specific sub-set of participants are able to exempt themselves from exposure to a proportion of System Operation costs that they have directly contributed to.
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201	P201 is less unattractive than P202 only in so far that it reduces the circumstances under which this tolerance band is applicable.

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Respondent:	*Name*
Company Name:	*Gaz de France ESS*
No. of BSC Parties Represented	*1*
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)	*0*
Non Parties represented	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*Supplier/Generator*
Does this response contain confidential information?	*No*

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Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	Gaz de France ESS, as a relatively new entrant to the market and niche I&C Supplier with only a minimum amount of generation capacity within our portfolio, did not believe that the case had been made to support implementation of modification P194. Bearing this in mind we are pleased to see that this modification proposal, along with P202, has been raised and given urgent status. It is imperative that the negative and distorting side effects introduced by P194 for non-vertically integrated players be mitigated ahead of this coming winter. A winter that once again remains 'tight' on the gas side with the inevitable knock on effect for energy prices this side of the market. This modification proposal has not been raised with the prime objective to reduce the incentive to trade and balance as near to zero as practicable, but to ensure no undue discrimination against those players who have not the market benefit of a range of generation options open to them. To that end we believe this modification introduces improvements to support Applicable BSC Objective C – promoting effective competition in the generation and supply of electricity and promoting such competition in the sale and purchase of electricity'. The present market structure supporting a number of large Vertically Integrated Players, who can extract additional benefit from the market verses a number of much smaller new entrant competitors who are, especially at times of system stress left with very little or no choice but to face imbalance cash out is not one which reflects a fair trade environment In that respect this modification proposal will go a small way to level the playing field without distorting the balance, or removing incentives for ensuring all efforts to mitigate the risk of exposure to imbalance cashout are still explored.

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	Qualified Yes	Alternative Modification 1 seeks to identify small suppliers to whom the tolerance band would be applied and suggests a cap of 750MWhs is applied. As niche I&C Suppliers Gaz de France ESS obvious is dealing with high volume consumers, however the number of MPANs serviced are, in some cases, far less than some of those supplied by those defined here as 'small'. We face the same problems due to the fact that we are not hugely vertically integrated and would therefore suggest that the cap be applied dependent upon the number of MPANs supplied. Alternative Modification 2 seems to defeat the point if applied to all parties. Generators with a capability of less than 50MW are currently exempt from a requirement to participate and are therefore already provided with some protection from the adverse effects introduced by P194
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Qualified Yes	We would support Alternative Modification 1 only if the cap were more appropriately applied as we suggest in our response to question 2 above
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Qualified Yes	But is contingent on our preference for the application of a Cap to be applied on MPAN numbers rather than volume traded per half hour
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	Yes	This feels about the right level although we would prefer, should the modification be implemented, to undertake an assessment of this level post winter 2006/07 incase the level requires upward adjustment
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	Yes	Again this feels about right and would, we believe, ensure that the incentive to balance remains

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Q	Question	Response Error! Bookmark not defined.	Rationale
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	No	Not greatly as the proposal does little to diminish the incentive to balance
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	As this would ensure delivery at the point of implementation of P194 thus offering an immediate opportunity to mitigate against the adverse effect P194 introduces for independent suppliers
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	Transparency is paramount, however it is acceptable that delivery of this element may be slightly longer than implementation of the modification proposal itself
11.	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 definition of small supplier should be based on the number of MPANs involved not the volume of energy in a half hour
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	Yes	The following may not be within the scope of this modification or indeed, for some of those listed below not even within the remit of the BSC as a whole, but should be noted and addressed by the relevant body as soon as practicable. These include: • Credit issues • The continued lack of market liquidity • The impact of Vertical Integration on competition • The role of the System Operator on an integrated electricity system generally and in particular concerns around the allocation of their costs
13.	Are there any further comments on P201 that you wish to make?	Yes	The consultation document refers in section 3.7.2 to the removal of the tolerance band from the gas regime but neglects to include reference to the fact that this was required because of changes to the linepack regime. For completeness this omission should be addressed.

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Q	Question	Response Error! Bookmark not defined.	Rationale
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P202	Modification proposal P201 identified a particular defect introduced by P194 and provided a specific solution. Modification proposal P202 however builds upon this to embrace P194s wider negative effects around maintenance of a longer position to mitigate against exposure to System Buy Price. To that end Gaz de France ESS prefers P202 over P201

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P201 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:	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 / Distributor / other – please state [1]) Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent
Does this response contain confidential information?	No

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	We do not believe that P201 better facilitates the achievement of the Applicable BSC Objectives due to the reasons stated below: b) economically inefficient management of transmission system due to potential increases in costs of balancing the system. c) distorts cash flows and pricing signals. Changes in incentives to balance may lead to changes in Parties strategies.

[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 Error! Bookmark not defined.	Rationale
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	No	For reasons stated above.
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	No	We do not support either.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	Due to the fact that it restricts the effects of P201 to one consumption account for each Party.
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	No	Due to the fact it is an arbitrary measure and has not been justified in any way.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	No	Due to the fact it is an arbitrary measure and has not been justified in any way.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	The effects of P201 will potentially reduce the incentive to balance by reducing balancing costs for each Party.
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	Due to it being the cheapest and most robust approach.

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Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	As it will provide transparency of information.
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
13.	Are there any further comments on P201 that you wish to make?	No	
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201/ P202	No comment.

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P201 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Libby Glazebrook*
Company Name:	*International Power plc*
No. of BSC Parties Represented	*4*
Parties Represented	*Deeside Power Development Co Ltd, First Hydro Company, Rugeley Power Generation Ltd, Saltend Cogeneration Company 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 Error! Bookmark not defined.	Rationale

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Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	No	One of the stated reasons for raising this mod is the lack of liquidity in the Spot market. Under P201 there will be a reduced incentive to trade out the last few MW of imbalance in advance of gate closure. This will reduce liquidity in the spot market, exacerbating the problem that the mod is intended to solve. Fewer trades in the spot market leading up to gate closure may dampen the market price. Dampening of the market price provides a further incentive to fully utilise the tolerance band to reduce imbalance exposure and the price paid for imbalance up to 20MWh. Because all suppliers will be incentivised to fully utilise the tolerance band, the number of balancing actions that have to be taken by the System Operator might well increase. Not only will this increase the cost of balancing the system, it will increase the SBP. Whilst the cost of the first 20MWh of imbalance will reduce, the cost for any further imbalance will increase. Furthermore, the current close linkage between SBP and PX prices will diminish, Overall, P201 appears to have a number of unintended and undesirable consequences. From the above, the mod will reduce the efficient and economic operation of the transmission system (objective b) and because it will reduce liquidity will also not promote competition in the generation and supply of electricity (objective c). In addition, P201 only applies to suppliers and is therefore discriminatory, again it does not promote effective competition
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	No	We do not support the use of a Tolerance Band. Whilst, the mod is discriminatory, we do not support its extension to all Trading Parties as this further reduces overall incentives to balance.

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Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes	Applying the mod only to small suppliers has some merit compared to the proposed modification although we question whether this will provide a disincentive for small suppliers to grow. Once they exceed the proposed 750MWh of credited energy volume in a settlement period, the Tolerance Band will not apply. The mod at this point may cease to promote competition in the trading arrangements
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	No	Whist International Power does not support P201, we believe that the proposed tolerance band of 20MWh is far too high. Applied to each supplier trading party this will represent a significant proportion of half hourly imbalances. Given that the average magnitude of Qualifying Imbalance for small suppliers is under 10MWh, it may be appropriate to set the Tolerance Band to 5MWh. This will provide some protection against cashout exposure whilst still retaining the incentive to balance rather than always (on average) cashing out at the tolerance price. Again, we believe that this lower tolerance band should only be applied to small suppliers.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	No	A premium of 10% might be worth paying to avoid the transaction costs of trading out imbalance in the short term markets. Shipper tolerances were removed from the gas market for this reason (amongst others). A 20% premium would provide a greater incentive to avoid imbalance.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	Parties will fully utilise the tolerance band placing less effort on minimising their imbalance.

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Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	Yes, if the mod is approved, it should be implemented as soon as possible to limit the impact of P194.
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes / No	No, this is a very simple calculation! Reporting this information amounts to 25% of the change specific costs (£75k)
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
13.	Are there any further comments on P201 that you wish to make?	Yes	The analysis provided by APX demonstrates that less than 3% of spot market trades are AON, the remainder are available in 1MW increments. This suggests that liquidity is no more a problem for a small supplier than it is for any other party trading in the spot market. Lack of liquidity arises from the high degree of vertical integration, if approved, this mod will exacerbate the problem. The lack of liquidity is an issue that should be addressed outside of the BSC.
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201	P201 is preferred. P202 will increase the current incentive to go long. This will not enhance balancing the system.

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P201 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Bill Bullen*
Company Name:	*Utilita Electricity Ltd*
No. of BSC Parties Represented	*1*
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*Supplier*
Does this response contain confidential information?	

Q	Question	Response Error! Bookmark not defined.	Rationale

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Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	P201/202 will go some way towards removing defects in the current trading rules that disadvantage small players relative to larger suppliers by reducing the effect of unmanageable risks and reduced availability of risk mitigation tools to smaller players on wider traded markets (e.g. precluded by size from options markets; and diminished routes to market because of complex, rigorous and overlapping credit requirements). Small suppliers can only achieve balance at disproportionate cost. This is not an effect of diseconomies of scale (a natural competitive effect) but a direct consequence of trading rules that have artificially created additional strong incentives to integrate and consolidate. The analysis considered by the group to date also suggests that declining liquidity levels mean limited volumes are available especially at times of system stress, often at distressed purchase prices, and this is also systematically disadvantaging independent players as integrated players only need to trade at the margin and usually self-balance. P201/202 would also remove a distortion relative to small generators who can opt not to participate in the trading arrangements if they are less than 50MW, and remove an important element of discrimination between these two comparable types of participant. Removing this barrier by introducing a tolerance band to mitigate higher costs encourages competition among existing players and also removes a barrier to entry. The small supplier alternative can be considered as duly discriminating owing to the competitive detriments faced by this size and type of trading party under the current rule book.
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	Yes	An appropriately targeted alternative is the best way of addressing the defects highlighted by the modification, and we believe that a solution embracing smaller suppliers only is necessary. Judgement is required in setting the level of the cap on qualification for suppliers only, but the modification group's proposal for 750MWh does not seem unreasonable.

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Q	Question	Response Error! Bookmark not defined.	Rationale
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes	As noted above, an appropriately targeted alternative is the best way of addressing the defects highlighted by the modification, and the limiting alternative is preferred over the original. The modification is envisaged as tackling a defect specific to suppliers. If generation issues are to be considered, this should be through a separate workstream.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	This is subject to our preference to application of the volume cap under the proposed alternatives as this will ring fence the solution to addressing the specific defect.
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	Yes	It broadly approximates to the size threshold of 50MW under which small generators are exempted from a requirement to participate. An upward adjustment from 20MWh to 25MWh might be in order in constructing an alternative to make level the position, as size is an issue on both sides of the market.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	Yes	The proposal under P201/202 would retain a significant incentive to contract, assuming quantities are available.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	The incentives to trade will be undiminished and remain very strong; it is simply the effect of not being able to contract or under P202 being over contracted that would be affected. Both modifications could encourage less over-contracting to avoid imbalance in some limited circumstances. Overall, assuming an alternative is pursued around a smaller supplier cap, the impacts on the market will be minimal.
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	It is essential that mitigation of the detrimental effects of unavoidable imbalance exposure is removed no later than the point of implementation of P194, as this rule change will significantly increase the risk of imbalance exposure, disproportionately so for smaller suppliers.

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Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	Timely availability of any pricing information is key in terms of increasing transparency in the market. It is acknowledged that implementation timescales may necessitate later delivery of the necessary changes to BMRS.
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	There are a number of critical issues about the impact of industry structure on market structure (and vice versa) that set the context for this modification. Addressing market illiquidity and understanding the limits on desirable consolidation and integration are two such issues, but extend far outside of the BSC. Over time it is to be hoped that the causes, not the effects, of competitive distortions can be addressed, but for the present P201/202 should address one major effect of balancing rules and their detrimental impact on smaller players without materially undermining incentives to balance.

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Q	Question	Response Error! Bookmark not defined.	Rationale
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	Yes	The exemptions regime between generation and supply requires review, with a view to achieving some alignment. The consultation report also identifies the precedent value of gas modification 0451, but ignores the fact that tolerance limits in gas were removed *contingent on* the implementation of a line pack service, which in itself deals with operational flexibility in that market (and implies perfect balance cannot and should not be sought on integrated energy systems). Imposing fully cost reflective cash-out on demand is discriminatory as it creates incentives and signals that supply (relative to generation) generally cannot respond to and that smaller suppliers especially cannot respond to. There are a number of reasons for this. It is the nature of an integrated electricity system that there is always a passive energy imbalance. On the demand side this is not controllable and arises because of weather effects and behavioural actions of customers that forecasting can never properly specify in advance. Its existence on the system is a feature of an integrated system, and some energy flexibility band is needed that should not be allocated against individual imbalance positions. There is no causer as such who should be made to pay. Many of the actions taken by the SO are taken to deal with within half hour effects and imbalances that arise from managing generation. Generation can often average out these imbalances within the half hour trading period but demand often cannot. Consequently the cost of actions within the half hour are charged against demand which because of systematic forecasting unpredictability is more prone to allocation of the cost of this net imbalance. All system users cause some of these costs and they should be allocated generally against them. Larger suppliers may be able to manage these risks better not because they have better technology or more innovative load management but because they simply enjoy a diversity benefit. The trading rules create this benefit, not natural efficiencies of scale, and therefore it is inappropriate for the disbenefit to be targeted on a subset of players. Inherent in the market rules are a number of cross subsidies that are include half hour pricing of

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Q	Question	Response Error! Bookmark not defined.	Rationale
12. cont			needed to enable commercial and physical aspects of the market to align. These include half hour pricing of energy, socialisation of BSUoS and use of generic profiles for non half hourly users. The use of these approximations is justified in different ways but simplicity and ultimately facilitation of competition are important. In contrast cash-out has become progressively more complex and costs have become allocated on a partly spurious basis that there is always a causer. The effect of operation of these rules is now working against the development of competition and imposes real barriers to entry. Any efficiency arguments in favour (in terms of increased precision in allocation of costs, which we have argued are overstated) are outweighed by competitive detriments. To neutralise this detriment which works especially against smaller suppliers and prospective new entrant suppliers, a tolerance band is needed that would maintains incentives to contract but avoids loading of costs that arise substantively from the existence of an integrated system. In this context both P201/202 are mechanisms that represent the proportionate exercise of discrimination to counteract other more detrimental aspects of the BSC rules.
13.	Are there any further comments on P201 that you wish to make?	No	

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Q	Question	Response Error! Bookmark not defined.	Rationale
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P202	Both modification proposals have significant merit. P201 specifically addresses the main defect faced by the smallest suppliers, but P202 would also help address the perverse circumstances whereby suppliers generally - where they can - seek to go long to avoid risk of exposure to SBP. This artificially creates a long system in most trading periods, which is not efficient and duplicates balancing service arrangements separately administered by National Grid and for which consumers already pay. Further the underlying problem relates first to size and the interaction of players of different sizes with the BSC trading rules and second to imbalance and the rules that have been specifically constructed to require contracting. It follows that the tolerance arrangement should apply to all trades, and not only positions in one particular direction.

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P201 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Sharif Islam*
Company Name:	*Total Gas & Power Limited*
No. of BSC Parties Represented	*1*
Parties Represented	
No. of Non BSC Parties Represented (e.g. Agents)	
Non Parties represented	
Role of Respondent	*(Supplier/ Trader)*
Does this response contain confidential information?	*No*

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	We consider that the uncertainty regarding actual supplier demand coupled with the associated, albeit relatively small, notification risk of contracting shortly before gate closure and the potential exposure to high cashout prices may limit both liquidity and activity in prompt trading, i.e. parties may be unwilling to offer or take a position for fear of getting it wrong and being exposed to high and unmanageable System Buy Prices. However, if parties are confident that a cushion exists before full exposure to the prices this may counteract this risk averse behaviour, thereby promoting liquidity and promoting competition amongst small suppliers. We are not convinced that this proposal should be limited to small suppliers only, since to do so may limit any potentially new volumes released prior to gate closure as a result of this reduced risk aversion.

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	Yes	
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	No	
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	No	We consider that the benefits associated with the mod are more likely to be delivered if the tolerance band is available to all parties.
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	Yes	It may be useful to charge ISG with the responsibility to review the appropriate level and price at defined intervals similar to the Credit Assessment Price.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	Yes	See above
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	Please refer to question 1 answer
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	

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Q	Question	Response Error! Bookmark not defined.	Rationale
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	This will make it clearer for market participants to make the necessary economic evaluations and may serve to promote liquidity prior to gate closure.
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*		
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*		
13.	Are there any further comments on P201 that you wish to make?	No	
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P202	

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P201 ASSESSMENT PROCEDURE CONSULTATION QUESTIONS

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Respondent:	*Mr R C 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	*Please list all non Parties responding on behalf of (including the respondent company if relevant).*
Role of Respondent	*Trading Party Interconnector User*
Does this response contain confidential information?	*No*

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes	Defects in the current trading rules disadvantage smaller participants relative to larger suppliers. P201/P202 will mitigate some of these defects. Currently, smaller participants can only seek to achieve balance at a discriminatory (higher) cost, due to the reasons described in the consultation. The introduction of a tolerance band (which still provides appropriate proportionate incentives to balance) to mitigate discriminatory higher costs both facilitates competition and removes a barrier to entry.

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Q	Question	Response Error! Bookmark not defined.	Rationale
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	Yes	Selective targeting of smaller participants is desirable in any alternative. Appropriate volume/share metrics will need to be developed for eligibility.
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes	See above
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	Yes	The rationale by which the tolerance band approximates to the 50 MW exemption threshold for generation appears reasonable. Analysis will suggest whether the band should be increased further.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	Yes	The premium strikes an appropriate balance between providing a sufficient incentive to seek to balance, whilst at the same time providing relief from the defects in the present arrangements which have been identified in the Proposal
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	Yes	Participants will still seek to balance but will not be given the same incentive to “go long” that exists at the moment due to the possibility of penal cashout prices – this should result in more logical and efficient balancing behaviour

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Q	Question	Response Error! Bookmark not defined.	Rationale
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes	This modification is intended to address the discriminatory and penal effects of unavoidable imbalance exposure on smaller participants. It is thus imperative that its implementation is prior to, or coincident with P194 – which itself will exacerbate the defects identified in the current arrangements.
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes	Availability of data in a timely fashion promotes transparency and allows greater efficiency in terms of the actions open to market participants and the overall operation of the market as a whole.
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	This modification deals effectively with a defect in the current market arrangements. Addressing the root causes of those defects is a separate process (which needs to be undertaken) but is outside the scope and timetable required to implement a solution in time to provide the required relief for smaller participants.
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	No	
13.	Are there any further comments on P201 that you wish to make?	No	
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P202	Both proposals effectively address identified defects. P202 would tend to provide the additional benefit (over P201) of lessening the incentive on suppliers to go long and therefore avoid exposure to SBP. It also appears logical that any tolerance arrangement be applicable to all positions, not just those in one particular direction.

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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P201 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:	*Merel van der Neut Kolfschoten*
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*

Question 1 – Do you believe Proposed Modification <u>P201</u> better facilitates the achievement of the Applicable BSC Objectives? *Please give rationale and state objective(s).*

No, we do <u>not</u> believe that Proposed Modification P201 would better facilitate the achievement of the Applicable BSC Objectives.

<u>Introduction</u>

We believe a deficit exists under the BSC. BUoS charges should reflect the costs of balancing the system. Imbalance prices, on the other hand, should provide first and foremost the appropriate incentives for parties to balance their position. The approval of P194 has created a situation in which suppliers, and in particular small suppliers, will be penalised rather than incentivised. Small suppliers are very much restricted in responding to the price signals, as there is insufficient granularity and liquidity in the forward/spot markets for them to be able to manage their imbalance position economically. In addition, small suppliers cannot benefit from aggregation and consolidation services, as there has been little development in that area. Therefore we believe that the current baseline P194 has a detrimental impact on competition, not only in the supply market but also in the generation market, as discussed below.

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BSC Objectives

Objective C – **Yes**, we believe P201/202 would better facilitate Objective C because the tolerance band would protect small suppliers against uneconomically high imbalance costs and would therefore reduce the adverse effect on competition. In addition P201/202 would reduce a barrier to entry for small suppliers.

Objective D – **No**, we believe P201/202 will not better facilitate Objective D. There are significant costs associated with the modification because of changes to central systems and systems of individual parties (see also question 9). For there to be any benefit to small suppliers, the Proposed Modification must be implemented before winter 06/07. This means that in addition to the cost of a normal implementation, suppliers and all other parties will also have to bear the extra cost of a manual workaround. P201/202 would also significantly increase the complexity and reduce transparency of the Cash Out Regime. A simple, objective and transparent balancing regime is a requirement under European legislation (Directives 2003/54/EC and 2005/89/EC) and is at the hart of the ERGEG Draft Guidelines of Good Practice for Electricity Balancing Markets Integration.

Objective B – **Yes**, we believe P201/202 will better facilitate Objective B because it would reduce the incentive for suppliers to adopt a longer position, as anticipated under P194, and therefore it would reduce the overall costs of balancing the system. We do not believe P201/202 would reduce the incentive on suppliers to balance their position because – for one thing – the Tolerance Price includes a premium. It should also be noted that before P194 there already was a strong incentive on suppliers to balance their position. We believe that under these circumstances suppliers, including small suppliers, will always aim to balance their position.

Objective A – **Yes**, we believe P201/202 will better facilitate Objective A because it will remove the discriminatory element from the Cash Out Regime by putting small suppliers in a similar position as other suppliers. A non-discriminatory balancing regime that does not place an unreasonable burden on market participants is a requirement under European legislation (Directives 2003/54/EC and 2005/89/EC), if not UK legislation.

Conclusion

Although we sympathise with small suppliers, considering the overall impact on the BSC objectives, we cannot support P201/202. We believe the benefits of P201/202 do not outweigh the downsides of P201/202, namely the significant costs associated with this modification and increased complexity and the reduced transparency of the Cash Out Regime. A much simpler solution would be to increase PAR100MWh (such as envisaged by P205). This would reduce the P194 penalty regime for all Parties. In addition, it would reduce the negative impact of P194 on renewable generation, one of the main concerns raised under that modification. This is particularly important now that a number of initiatives are being considered that could have a detrimental impact on renewable generation (for example, zonal transmission losses and TNUoS charging for distributed generation) when at the same time the government's policy and the EU's policy is to encourage renewable investment to reduce carbon emissions.

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Question 2 – Do you believe either of the potential Alternative Modifications P201 better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*

No, we do not believe that either of the potential Alternative Modifications P201 would better facilitate the achievement of the Applicable BSC Objectives when compared to the current baseline (P194).

The potential Alternative Modifications would not change our concerns with regards to BSC Objective D. Therefore we do not believe that the potential Alternative Modifications would better facilitate the Applicable BSC Objectives compared to the current baseline. See also question 3.

Question 3 – Do you believe either of the potential Alternative Modifications P201 better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s).*

No, we do not believe that either of the potential Alternative Modifications P201 would better facilitate the achievement of the Applicable BSC Objectives when compared to Proposed Modification.

As mentioned under Question 2, the potential Alternative Modifications would not change our concerns with regards to BSC Objective D. Therefore we do not believe that the potential Alternative Modifications would better facilitate the Applicable BSC Objectives compared to the Proposed Modification. Particularly, restricting the tolerance band to small suppliers would make the Cash Out Regime even more complex. It could also introduce uncertainty, if the definition of small supplier is subject to review. In addition, as all suppliers (and generators/traders) are subject to the P194 penalty regime, it could also be considered unduly discriminatory to apply the tolerance band to only small suppliers.

Question 4 – Do you have any comments on the draft legal text?

No, at present we do not have any comments on the draft legal text.

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Question 5 – Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale.*

Yes, we support the idea that it should be avoided that suppliers take advantage of P201/202 by setting up a number of entities to avoid imbalance charges. However, we would like to see some further clarification of the qualification criteria for Alternative Modifications, in particular Alternative Modification 2, as set out in the Modification Consultation.

Question 6 – Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale.*

Yes, although slightly arbitrary, 20MWh appears to be the level at which small suppliers have found it impossible to obtain bilateral contracts for generation in longer term markets. It is also considered the level below which it is not possible for small suppliers to obtain trades on the market at times of system stress.

Question 7 – Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale.*

Yes, although it is an arbitrary number because it is not based on detailed cost assessment, we believe that a Tolerance Price based on the Market Price with a premium of 10% is appropriate. As we have said under Question 1 & 8, before P194 suppliers already had a strong incentive to balance their position. We do not believe that a Tolerance Price based on the Market Price with a premium of 10% would reduce supplier's incentive to balance their position and therefore we do not think a higher premium is required.

Question 8 – Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale.*

No, we do not believe P201/202 would reduce the incentive on suppliers to balance their position because – for one thing – the Tolerance Price includes a premium. It should also be noted that before P194 there already was a strong incentive on suppliers to balance their position. We believe that under these circumstances suppliers, including small suppliers, will always aim to balance their position.

Question 9 – Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale.*

No, as mentioned under question 1 and in our response to the Impact Assessment, we do not support the manual workaround.

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There are significant extra costs associated with the manual workaround, which we do not consider proportionate to the change. It would increase the complexity and reduce transparency of the Cash Out regime. This could be considered a barrier to enter the market, especially if the full solution is not implemented before June 2007. In addition, we have a number of practical issues with the manual workaround. If the SAA will perform a semi-automated workaround process to calculate adjusted Trading charges, this would mean a manual intervention, which cannot be properly controlled and which therefore may not be sufficiently robust. Another issue is the fact that the SAA-I014 flow will not include the additional data items. This would mean that we will not be able to validate the relevant invoices, for which we have strict procedures and controls in place. It would also have a negative impact on our credit cover process as we will not be in a position to accurately forecast our credit level exposure.

Question 10 – Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale.*

Yes, we believe the information should be provided on the BMRS for transparency reasons. However, as noted in our response to the Impact Assessment , not at a costs of £75,000. This seems prohibitively expense.

Question 11 – Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale.*

Yes, we believe there are alternative solutions that the Modification Group has not identified and that should be considered.

As mentioned under question 1, we believe that an increase of PAR 100MWh (for example to PAR 500MWh as proposed by P205) would be a much simpler, more transparent and less costly solution. It would reduce the detrimental impact on all parties, including small suppliers and renewable generation.

Question 12 – Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale.*

No.

Question 13 – Are there any further comments on P201 that you wish to make?

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No.

Question 14 – Please indicate any relative preference between P201 and P202 (providing rationale)?

We do not support the Proposed Modification nor any of the Alternative Modifications. If, however, we had to choose between P201 and P202, our preference would be for P202 as this modification addresses the two critical scenarios raised by small suppliers: being short when the system is short and being long when the system is long. In both cases, P202 would dampen the impact of the P194 penalty regime.

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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P201 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 Limited*
No. of BSC Parties Represented	*1*
Parties Represented	*BizzEnergy Limited*
No. of Non BSC Parties Represented (e.g. Agents)	*0*
Non Parties represented	
Role of Respondent	*Supplier*
Does this response contain confidential information?	*No*

Q	Question	Response	Rationale
1.	Do you believe Proposed Modification **P201** better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state objective(s)	Yes /	Small players are disadvantaged compared to large players because the trading rules impose risks which when coupled with the increased systematic risks of smaller less predictable portfolios (often because of less history and diversity) and the lack of availability of suitable tools at commercially viable rates to manage these risks. This results in a disproportionate competitive disadvantage which will severely impede the ability of small players to operate in the market. It is not possible, practicable or reasonable for smaller players to access the full range of risk tools available to larger players, such as generation, options (that trade in generally 50MW lots), load management customers, weather derivatives, etc. These markets have not developed for smaller players nor are they likely too as the aggregate demand from small players is too small to stimulate the development of a market. We are very concerned that there is a tendency of the wholesale market liquidity to dry up or trade at extremely wide spreads when the market is under stress. Parties with generation will tend to prioritise their actions around self insurance and

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Q	Question	Response	Rationale
			therefore marginal plant and trades will only be released to the wider market as a matter of last resort. Thus increasing the costs, risks and uncertainties to smaller players. Smaller generators already are not required to participate fully in the market by means of the 50MW limit, thus this proposal will help redress a discrimination already present. Imposing fully cost reflective cash-out on demand is discriminatory as it creates incentives and signals that supply (relative to generation) generally cannot respond to and that smaller suppliers especially cannot respond to. Thus the mod overall will reduce a barrier currently present created by the interaction of the rules and the lack of availability of risk management tools in the market created in part by the current market structure. If the market structure changes then a review of the parameters of this modification may be necessary. The outcome of this mod will be to promote the ability of smaller suppliers to compete in the market – objective C. There may be a small disadvantage to Objective A in terms of the system operators obligations to manage an efficient system, but on balance we believe the benefit to objective C will provide a greater overall benefit to customers due to the increased choice and service innovations presented to them by smaller players.
2.	Do you believe either of the potential Alternative Modifications **P201** better facilitates achievement of the Applicable BSC Objectives when compared to the current baseline? *Please give rationale and state objective(s)*	Yes /	Both Alternative modifications are better than the current baseline as they both address the defect without creating undue side effects.
3.	Do you believe either of the potential Alternative Modifications **P201** better facilitates the achievement of Applicable BSC Objectives when compared to the Proposed Modification? *Please give rationale and state objective(s)*	Yes/	Alternative 1 targets the solution at those most impacted and should offset some of the concerns regarding having a significant volume of energy in the market that had a weaker imbalance incentive that may impact the system operator ability to balance. It also focuses better the solution on the defect and impacted parties. The definition of small supplier is appropriate as it only when players are of this size that they can begin to access under reasonable commercial terms an appropriate array of risk management tools. Alternative 2 is acceptable if there is a concern of undue discrimination in relation to

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Q	Question	Response	Rationale
			the proposed mod or Alternative 1.
4.	Do you have any comments on the draft legal text?	No	
5.	Do you agree with the qualification criteria agreed by the Modification Group? *Please give rationale*	Yes	It limits the scope to those impacted by the defect and for which this modification goes some limited way to solve.
6.	Do you believe the proposed Tolerance Band of 20MWh is appropriate? *Please give rationale*	Yes /	It is broadly the level uncertainty at which players start to achieve critical mass and can both start to access the full tool set to manage risks and benefit from portfolio stability through diversity. It as is broadly comparable to the 50MW exemption. It also is reasonable in terms of short term weather volatility which can be 4-5 degrees at 2% per degree which equates to a 10% swing on a suppliers portfolio, so this level will cover suppliers up to 200MWh. Above this level there is still a strong incentive for the larger of the small suppliers to take action to balance their portfolios under extreme circumstances. Ideally the tolerance band should be larger, however, we do appreciate the concerns of the system operator on maintaining the incentive to balance and believe this is a reasonable compromise.
7.	Do you believe the Tolerance Price based on the Market price with a premium of 10% is appropriate? *Please give rationale*	Yes /	The 10% premia is a significant incentive to balance especially when considered against underlying margins available to suppliers in the market of -5% to 5% on energy. The 10% is significantly greater than the transactional costs of hedging. Some concern was raised that credit was an issue and that suppliers would prefer to expose themselves to avoid providing security. It is my belief that the credit requirements of the BSC are as if not more onerous than bi-lateral credit requirements for short term trading. We believe that the when the volumes traded in the Spot market are zero the Tolerance price should be the average of the SSP and SBP, as this should be a closer price to the traded market than the main price.
8.	Do you believe P201 will influence participants behaviour (if yes state how)? *Please provide rationale*	/ No	P201 still provides a strong incentive to balance especially as in balancing a supplier achieves financial certainty which for cashflow management purposes especially when selling fixed price contracts to customers is highly desirable. It also avoids potentially volatile credit requirements of the BSC. It may also incentivise players to be more accurately balanced rather than go systematically long for the last proportion of volume to avoid the asymmetry of cash

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Q	Question	Response	Rationale
			out prices.
9.	Were P201 to be approved, would you support the implementation approach described in the consultation document preferred by the Modification Group (i.e. BSC Agent operated workaround)? *Please give rationale*	Yes /	Yes it is important that the cashflow impact of the benefit of this mod are implemented at the same time a P194.
10.	Do you believe Tolerance Price information should be provided on the BMRS? *Please give rationale*	Yes /	Yes timely and accurate information is always desirable in managing risks.
11.	Do you believe there are any alternative solutions that the Modification Group has not identified and that should be considered? *Please give rationale*	No	
12.	Does P201 raise any issues that you believe have not been identified so far and that should be consider? *Please give rationale*	Yes /	It is the nature of an integrated electricity system that there is always a passive energy imbalance. On the demand side this is not controllable and arises because of weather effects and behavioural actions of customers that forecasting can never properly specify in advance. Its existence on the system is a feature of an integrated system, and some energy flexibility band is needed that should not be allocated against individual imbalance positions. There is no causer as such who should be made to pay. Many of the actions taken by the SO are taken to deal with within half hour effects and imbalances that arise from managing generation. Generation can often average out these imbalances within the half hour trading period but demand often cannot. Consequently the cost of actions within the half hour are charged against demand which because of systematic forecasting unpredictability is more prone to allocation of the cost of this net imbalance. All system users cause some of these costs and they should be allocated generally against them. Larger suppliers may be able to manage these risks better not because they have better technology or more innovative load management but because they simply enjoy a diversity benefit. The trading rules create this benefit, not natural efficiencies of scale, and therefore it is inappropriate for the disbenefit to be targeted on a

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Q	Question	Response	Rationale
			subset of players. Incentives to balance are appropriate, penalties for failing when parties have done all that is reasonably and commercially sensible to do is not. Smaller suppliers generally enter the market by being niche suppliers to SME contract with fixed price metered volume contracts. They by their nature do not contract with flexible demand due to the general size and nature of these customers. These customers by the very nature of the NHH settlements system are exposed to the vagaries of the entire NHH customer base through the GSP group factor correction system. Thus although a supplier may understand perfectly his own customer base his knowledge of the rest of the NHH market is limited yet he is obliged to second guess this in order to limits his own imbalance exposure. Increasing the incentives for parties to balance will only have effect if they can do something different to balance. We believe that the incentives are already strong and that increasing the incentives will only act as a penalty as there is no longer any cost effective improvements that can be made to improve our forecasting ability.
13.	Are there any further comments on P201 that you wish to make?	Yes /	P201 is predicated against imperfections in both the BSC and in the wholesale trading market. The parameters of tolerance band and Tolerance price can be revisited to reflect changing market conditions. The 10% price incentive should still be sufficient to encourage new products to market to try and take some value from this. This will only happen if there is sufficient volume of imbalance present to warrant it. Thus the system operators concern of large volumes having not being incentivised to balance is somewhat limited by a competitive dynamic. Suppliers who in the main sell fixed price contracts would nearly always prefer to perfectly hedge their power exposure when winning customers. The main reason for them not doing so is the lack of availability of suitably priced wholesale products. The market has now been operating for 5 years and these products have not appeared. The market share of small suppliers is now lower than at any time since NETA so it is now unlikely that new products will appear to manage these risks as there is insufficient critical mass to warrant the investment. The main concerns regarding P202 is not what has happened historically, but the

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Q	Question	Response	Rationale
			very likely implications of a tight market and a system under stress coupled with P194. We believe that self insurance will be a key risk management strategy and that products will only be traded as a secondary activity and that the price and availability of these products will be high and potentially limited. Thus although it may be technically possible for players to hedge the price at which they can do so will not bear any relation to the implied priced in their competitors portfolios who have access to the fuller and wider range of tools to manage such risks. The general design of the market socialises many aspects of costs because direct cost reflectivity is inappropriate, good examples of this is BSUoS, transmission and distribution costs and distribution losses. Whilst it is appropriate that general strong signals should exist they do need to be consistent with other signals. At present cashout cost reflectivity is disproportionate when compared to other elements of cost. P202 is an attempt to socialise a small proportion of the value whilst still maintain a strong incentive to balance and is therefore not inconsistent with the general market design. Since P26 small suppliers are facing increasing difficulty in finding trading partners who are prepared to trade under reasonable commercial terms the volumes required especially due to the recent consolidation and withdrawal of a significant number of independent traders from the market. Most of the remaining independent traders only wish to trade standard trading lots which are to course for effective risk management of small suppliers. The effect of operation of these rules is now working against the development of competition and imposes real barriers to entry. Any efficiency arguments in favour (in terms of increased precision in allocation of costs, which we have argued are overstated) are outweighed by competitive detriments Finally, we note that the gas modification 0451, the removal of the tolerance band in gas was contingent on the introduction of a line pack service that helped smooth out the real time imbalance effects. This we see as an acceptance that perfect balance

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Q	Question	Response	Rationale
			cannot be achieved by individuals and that a systematic buffer storage is essential.
14.	Please indicate any relative preference between P201 and P202 (providing rationale)?	P201/ P202	We prefer P202 as it gives a stronger incentive to balance than P201 which would give a slight tendency to go short. Thus has a smaller overall effect on the system operators balancing actions.

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