

Responses from P136/137 Assessment Consultation

Consultation issued 21 October 2003

Representations were received from the following parties:

No	Company	File Number	No. BSC Parties Represented	No. Non-Parties Represented
1.	First Hydro	P136_137_ASS_01	1	0
2.	BOC Gases	P136_137_ASS_02	0	1
3.	South Coast Power Ltd	P136_137_ASS_03	1	0
4.	Slough Energy	P136_137_ASS_04	4	0
5.	GdF Marketing	P136_137_ASS_05	1	0
6.	ScottishPower	P136_137_ASS_06	6	0
7.	RWE	P136_137_ASS_07	9	0
8.	InterGen UK Ltd	P136_137_ASS_08	4	1
9.	Alcan Power and Smelting UK	P136_137_ASS_09	0	1
10.	Corus Group Plc	P136_137_ASS_10	0	1
11.	ConocoPhillips	P136_137_ASS_11	2	0
12.	Energy Intensive Users Group	P136_137_ASS_12	0	
13.	British Gas Trading	P136_137_ASS_13	5	0
14.	Powergen	P136_137_ASS_14	14	0
15.	EdF Energy	P136_137_ASS_15	9	0
16.	National Grid	P136_137_ASS_16	1	0
17.	energywatch	P136_137_ASS_17	0	
18.	Entergy-Koch Trading Europe Ltd	P136_137_ASS_18	1	0
19.	Atlantic Electric and Gas Ltd	P136_137_ASS_19	1	0
20.	Barclays Capital	P136_137_ASS_20	1	0

P136_137_ASS_001 – First Hydro Company**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES	If the price is to be a marginal one, it should be based on the most expensive untagged marginal action. Otherwise, it isn't a marginal price.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	No/Yes	Estimates of non firm volumes should be used, this will go a long way to ensuring that the 'right' marginal price is determined.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the	(a)	Provided that estimates of the non firm volume are used to reduce the chances of price movements with each settlement run. It is important that the 'right' price (or at least one that includes all acceptances) is determined. Including all acceptances will ensure that when parties are exposed to imbalance cashout, the price they are exposed to has been consistently and accurately calculated

Q	Question	Response	Rationale
	Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	See Q3
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		The P137 undo and offset tagging should as a minimum be applied to P136. This will remove opposite trades from the stack and allow better discovery of the marginal price, We would also like to see option fees included in cashout prices as per option 2 in NGT BSAD consultation.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	NO	The price should be based on the actions taken by the SO to balance the system. We have concerns over the degree of latitude NGC is given in trading in the forwards markets to balance the system and the marked effect that this can have on cashout prices. The BSAD related documents should be far more prescriptive in describing the circumstances that NGC is allowed to trade forward. If these related documents are 'tightened' we do not see the need to remove BSAD from the cashout price calculation.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES	Option fees will be targeted against actual utilisation sending stronger signals to the market of the cost of holding reserve.
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	
9.	In your opinion, and given the	YES	Excluding non delivered bid-offer acceptances, might result in a potentially long delay to the accurate

Q	Question	Response	Rationale
	technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?		calculation of cashout prices especially if these acceptances have been taken on the demand side. Irrespective of whether such actions are delivered or not (and there will be strong incentives in place to do so) the acceptance by the SO of these offers/bids indicates the value that they attach to energy balancing at that time, which should be reflected in the price.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES	This approach will allow a better reflection of the marginal price for energy balancing
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		The marginal price will apply on both the bid and offer side – parties who choose to go long when the system is long will receive less. This should reduce the incentives to go long. On the other hand, SBP will increase which will incentivised parties to go long. Overall, the incentives to balance probably won't change significantly.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		It could be argued that generators will increase their offer prices to reduce/avoid exposure to non delivery. In doing so, they are also reducing their chances of being accepted in the BM. There will be a trade off between the chances of receiving income from the BM and the risk of higher imbalance exposure in the event of plant failure arising from BM participation, On balance, pricing strategies probably won't change
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy		A marginal price will better reflect the price of the last (untagged) MWh required to balance the system. Out of balance Parties should be targeted with marginal charges since they more appropriately reflect the costs of balancing the system.

Q	Question	Response	Rationale
	balancing the system at those in imbalance?		
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	P136 will strengthen signals to the market especially at times of system stress. This will allow the forward markets to respond improving security of supply.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		One way or another, costs to consumers will have to rise to encourage new generation to enter the market. P136 is one way of addressing this as it will appropriately increase forward prices providing stronger signals on security of supply.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	NO	The threat of imbalance exposure should improve the reliability of plant and demand forecasting. It may also encourage the development of pre gate closure insurance products. Since parties cannot protect against within gate closure plant loss, rule changes may be necessary to allow within gate closure insurance products to be developed.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>RCRC is unpredictable and could be positive or negative. Additionally, the income from RCRC when the system is short will, for all but the smallest imbalances, be far lower than the imbalance exposure to the marginal SBP even for a BSC Party with a large market share. It is therefore difficult to see how RCRC income will mitigate the effect of the marginal price signal.</p> <p>It is true that a single site generator that fails will miss out on RCRC income to offset their imbalance exposure. This applies as much under marginal pricing as does under the present cashout arrangements.</p>
18.	In your opinion, is Credit Cover	NO	Posted BSC Credit cover itself is no more of an issue since it is based on the credit assessment price.

Q	Question	Response	Rationale
	under P136 any more of an issue than under the current arrangements?		Under the current cashout arrangements, faced with a high SBP and imbalance exposure, Parties may have to post additional levels of credit at the initial settlement stage, the same will apply under P136.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		It is up to individual parties to comment. We do not envisage any material impact on First Hydro.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		P136 will provide stronger signals to return mothballed plant to service and invest in new generation. The will improve competition in generation.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES	See earlier responses.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	Yes	An alternative where BSAD is excluded from the price calculation is being considered, It would be useful if ELEXON could undertake analysis of the effect on cashout prices if all of NGC's forward trades were excluded form the cashout price calculation (the price is only based on accepted bids and offers). The treatment of option fees would also have to be considered.
23.	Are there any further comments on P136 that you wish to make?	NO	

These responses apply equally to the P137 consultation

P136_137_ASS_02 – BOC Gases**P136****Note response starts at Question # 11**

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES / NO	
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES / NO	
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO	
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		
6.	Do you support the proposed approach (being	YES / NO	

Q	Question	Response Error! Bookmark not defined.	Rationale
	considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?		
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES / NO	
8.	Do you wish to propose a different treatment of BSAD for P136?	YES / NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES / NO	
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO	
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		It is not clear to me that P136 will allow NGC to better achieve Objective 3(b) and it's operation may produce worse results than the present system as modified by p78. I feel that the present arrangements provide sufficient invests to balance. I feel that security of supply matters are more wide ranging than ½ hourly balancing.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		I am uncertain, however I do not think that large opportunistic bids could be ruled out. Also there may be perverse effects and incentive relating to "beer fund" which would probably favour larger portfolio generators.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the		I think the imbalance costs will rise and those in imbalance may pay more than the cost actually incurred by the transmission company

Q	Question	Response Error! Bookmark not defined.	Rationale
	targeting of the costs incurred in energy balancing the system at those in imbalance?		
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES / NO	Yes, I think with the recent consolidation of the market we may have a return to the pre-NETA Pool.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>BOC fears that the following costs would increase:-</p> <ol style="list-style-type: none"> 1) transaction costs 2) credit cover 3) consolidation costs for small and/or renewable and CHP generators <p>All of these would be passed to customers. Also these costs would provide a barrier to entry for new entrant generation and increase the power of the present oligopoly thus increasing prices to customers further. Such an effect would be against the BSC objective C relating to competition.</p>
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES / NO	Yes, it increases the need for risk management and the cost of it.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>There may be perverse effects and incentive relating to "beer fund" which would probably favour larger portfolio generators. Also I don't believe it would be possible for customers to understand who is getting what money. Prices to customers would go up due to higher imbalance risk or these risks pushed on to the customers. Then the hidden "beer fund" money would be used to contribute to profit rather than to offset the extra risk costs in customers prices. I believe that Parties will be encouraged to "go longer" than now increasing inefficiency and costing customers money.</p>

Q	Question	Response Error! Bookmark not defined.	Rationale
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES / NO	Yes
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Extra cost for single site generator and small Supplier, more money for large portfolio player via beer fund
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		P 136 looks likely to be a barrier to the entry of new generators and therefore it would have an adverse effect on 3(c)
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO	No. I cannot positively say P136 would better facilitates the achievement of the Applicable BSC Objectives. Objective b) this system may be less cost reflective, it's increased risk may hold back generators at times of stress. Objective c) The increase risk will create a barrier to entry and thus is against the competition objective.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES / NO	
23.	Are there any further comments on P136 that you wish to make?	YES / NO	<ul style="list-style-type: none"> P78 has not been tested under winter conditions where the greatest risk of imbalance is likely to occur. The proposed modifications are aimed at addressing perceived problems with the current methodology – however, it is not clear if we really have a problem that needs to be addressed

P137

Note response starts at Question # 6

Q	Question	Response Error! Bookmark not defined.	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	YES / NO	
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES / NO	
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO	
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	YES / NO	NO, this seems subject to arbitrary judgements
6.	Do you wish to propose a different treatment of BSAD for P137?	YES / NO	

Q	Question	Response Error! Bookmark not defined.	Rationale
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES / NO	No, these seems very odd to me, I find it deeply suspicious
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO	
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		It is not clear to me that P137 will allow NGC to better achieve Objective 3(b) and it's operation may produce worse results than the present system as modified by p78. I feel that the present arrangements provide sufficient invests to balance. I feel that security of supply matters are more wide ranging than 1/2 hourly balancing.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		I am uncertain, however I do not think that large opportunistic bids could be ruled out. Also there may be perverse effects and incentive relating to "beer fund" which would probably favour larger portfolio generators.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		It will put it up and encourage parties to go longer to avoid risk. Imbalance costs will be over-recovered
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES / NO	Yes, I think with the recent consolidation of the market we may have a return to the pre-NETA Pool.

Q	Question	Response Error! Bookmark not defined.	Rationale
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>BOC fears that the following costs would increase:-</p> <ul style="list-style-type: none"> 4) transaction costs 5) credit cover 6) consolidation costs for small and/or renewable and CHP generators <p>All of these would be passed to customers. Also these costs would provide a barrier to entry for new entrant generation and increase the power of the present oligopoly thus increasing prices to customers further. Such an effect would be against the BSC objective C relating to competition.</p>
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES / NO	Yes, it increases the need for risk management and the cost of it.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>There may be perverse effects and incentive relating to "beer fund" which would probably favour larger portfolio generators. Also I don't believe it would be possible for customers to understand who is getting what money. Prices to customers would go up due to higher imbalance risk or these risks pushed on to the customers. Then the hidden "beer fund" money would be used to contribute to profit rather than to offset the extra risk costs in customers prices. I believe that Parties will be encouraged to "go longer" than now increasing inefficiency and costing customers money.</p>
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES / NO	Yes
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Extra cost for single site generator and small Supplier, more money for large portfolio player via beer fund

Q	Question	Response Error! Bookmark not defined.	Rationale
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		P 137 looks likely to be a barrier to the entry of new generators and therefore it would have an adverse effect on 3(c)
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO	
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO	No. I cannot positively say P137 would better facilitates the achievement of the Applicable BSC Objectives. Objective b) this system may be less cost reflective, it's increased risk may hold back generators at times of stress. Objective c) The increase risk will create a barrier to entry and thus is against the competition objective.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES / NO	
22.	Are there any further comments on P137 that you wish to make?	YES / NO	<ul style="list-style-type: none"> P78 has not been tested under winter conditions where the greatest risk of imbalance is likely to occur. The proposed modifications are aimed at addressing perceived problems with the current methodology – however, it is not clear if we really have a problem that needs to be addressed

P136_137_ASS_03 – South Coast Power Ltd**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	NO	The proposed stacking method is largely the current one with the most extreme price left in the stack setting the main price. Whilst the current method is acceptable for deciding what goes into an average price, it is less satisfactory in deciding the marginal price. One of the difficulties with marginal pricing is that any proposed method will have flaws; hence we do not propose an alternate method.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	Real time NIV is a necessity and it is slightly better to use estimates of non-firm volumes than to ignore them.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(b)	Freezing the BSAD data will almost freeze the price and will have less of a systems impact.

Q	Question	Response	Rationale
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	On the same basis as manifest error.
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		Disaggregating BSAD clearly improves transparency and is understandable in a marginal price structure. Adding option fees to accepted offers would have an extremely randomising affect on the price. NGC will schedule based on the offer price of say £100/MWh, leaving off a non-standing reserve generator at say £110/MWh. With an option fee of say £1,000/MWh, this slight change in the schedule switches the marginal price from £110/MWh to £1,100/MWh. So reject option 2.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	YES	On the basis that NGT actions before gate closure are a sunk cost and are embedded in the market price and those taken after gate closure lack transparency.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	NO	See above
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	

Q	Question	Response	Rationale
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	Complication for complications sake
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		Extremely adverse, because at times of system stress non-portfolio generators may withdraw plant in order to reduce the potential impacts of plant trip.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		At times of system stress generators will increase their offer prices towards maximum permitted levels.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		It will reduce cost reflectivity, because at times of system stress the imbalance price will tend towards the maximum permitted level. This will increase price spread and risk on parties and will cause suppliers to go excessively long with consequent effect on cost to customers.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	Suppliers will go long and this will tend to increase forward prices. Likely to cause significant volatility particularly in Day Ahead prices.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		This will increase risk on all parties: Suppliers will attempt to buy longer at peaks; Single site generators will run a significantly high risk of insolvency due to plant trip; and Portfolio generators will carry their own reserve and risk disobeying the grid code. Increased cost to customers – particularly those with volatile demand.

Q	Question	Response	Rationale
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	See above
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		Increase it but zero effect on party's behaviour.
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	Significantly so – the BSC is likely to become a contributory factor in Party insolvency.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		See 15
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		Reinforce the current trend towards market domination by portfolio players.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	see above
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	

Q	Question	Response	Rationale
23.	Are there any further comments on P136 that you wish to make?	YES	We have a trading company that is insulated from imbalance risk (unless it chooses to take a position) attempting to significantly increase that risk – hence increase the risk of Party insolvency.

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	NO	The proposed stacking method is largely the current one with disaggregated BSAD some extra tagging and then the most extreme price left in the stack sets the main price. Whilst the current method is acceptable for deciding what goes into an average price, it is less satisfactory in deciding the marginal price. One of the difficulties with marginal pricing is that any proposed method will have flaws; hence we do not propose an alternate method.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	Real time NIV is a necessity and it is slightly better to use estimates of non-firm volumes than to ignore them.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c)	(b)	Freezing the BSAD data will almost freeze the price and will have less of a systems impact.

Q	Question	Response	Rationale
	freeze the Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	On the same basis as manifest error.
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	NO	Adding option fees to accepted offers would have an extremely randomising affect on the price. NGC will schedule based on the offer price of say £100/MWh, leaving off a non-standing reserve generator at say £110/MWh. With an option fee of say £1,000/MWh, this slight change in the schedule switches the marginal price from £110/MWh to £1,100/MWh.
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	Complication for complications sake
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		Extremely adverse, because at times of system stress non-portfolio generators may withdraw plant in order to reduce the potential impacts of plant trip.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		At times of system stress generators will increase their offer prices towards maximum permitted levels.

Q	Question	Response	Rationale
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		It will reduce cost reflectivity, because at times of system stress the imbalance price will tend towards the maximum permitted level. This will increase price spread and risk on parties and will cause suppliers to go excessively long with consequent effect on cost to customers.
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	Suppliers will go long and this will tend to increase forward prices. Likely to cause significant volatility particularly in Day Ahead prices.
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		This will increase risk on all parties: Suppliers will attempt to buy longer at peaks; Single site generators will run a significantly high risk of insolvency due to plant trip; and Portfolio generators will carry their own reserve and risk disobeying the grid code. Increased cost to customers – particularly those with volatile demand.
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	See above
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		Increase it but zero effect on party's behaviour.
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	Significantly so – the BSC is likely to become a contributory factor in Party insolvency.
17.	In your opinion, what will the likely impact		See 13

Q	Question	Response	Rationale
	of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		Reinforce the current trend towards market domination by portfolio players.
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	see above
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
22.	Are there any further comments on P137 that you wish to make?	YES	We have a trading company that is insulated from imbalance risk (unless it chooses to take a position) attempting to significantly increase that risk – hence increase the risk of Party insolvency.

P136_137_ASS_04 – Slough Energy**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	NO	The proposed stacking method is largely the current one with the most extreme price left in the stack setting the main price. Whilst the current method is acceptable for deciding what goes into an average price, it is less satisfactory in deciding the marginal price. One of the difficulties with marginal pricing is that any proposed method will have flaws; hence we do not propose an alternate method.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	Real time NIV is a necessity and it is slightly better to use estimates of non-firm volumes than to ignore them.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(b)	Freezing the BSAD data will almost freeze the price and will have less of a systems impact.
4.	Do you support the approach of allowing error correction of BSAD under	YES	On the same basis as manifest error.

Q	Question	Response	Rationale
	exceptional circumstances only?		
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		Disaggregating BSAD clearly improves transparency and is understandable in a marginal price structure. Adding option fees to accepted offers would have an extremely randomising affect on the price. NGC will schedule based on the offer price of say £100/MWh, leaving off a non-standing reserve generator at say £110/MWh. With an option fee of say £1,000/MWh, this slight change in the schedule switches the marginal price from £110/MWh to £1,100/MWh. So reject option 2.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	YES	On the basis that NGT actions before gate closure are a sunk cost and are embedded in the market price and those taken after gate closure lack transparency.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	NO	See above
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	Unnecessary complication
11.	What effect, in your opinion, will P136		Negative given the incentive on portfolio generators to self insure (and then self balance)

Q	Question	Response	Rationale
	have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		Difficult to know in advance – but clearly there will be an effect.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		While we retain pay-as-bid then clearly the marginal price cannot be cost reflective. This will increase price spread and risk on parties and will cause suppliers to go excessively long with consequent effect on cost to customers.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES / NO	Not a lot – barring occasional on the day panics.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		This will increase risk on all parties: Suppliers will attempt to buy longer at peaks; Single site generators can insure by doing a contract to MVRN deal with a portfolio generator (at a price) (alternatively they can negotiate non-firm contracts with NGT outside the balancing mechanism); and Portfolio generators will carry their own reserve and risk disobeying the grid code. Increased cost to customers – particularly those with volatile demand.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion,	YES	See above

Q	Question	Response	Rationale
	how does this consequentially impact risk management?		
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		Increase it but little effect on party's behaviour.
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	Significantly so – the BSC is likely to become a contributory factor in Party insolvency.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		See 15
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		Reinforce the current trend towards oligopoly.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
23.	Are there any further comments on P136 that you wish to make?	YES	A company that is insulated from imbalance risk is attempting to significantly increase that risk – hence increase the risk of Party insolvency.

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	NO	The proposed stacking method is largely the current one with disaggregated BSAD some extra tagging and then the most extreme price left in the stack sets the main price. Whilst the current method is acceptable for deciding what goes into an average price, it is less satisfactory in deciding the marginal price. One of the difficulties with marginal pricing is that any proposed method will have flaws; hence we do not propose an alternate method.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	Real time NIV is a necessity and it is slightly better to use estimates of non-firm volumes than to ignore them.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(b)	Freezing the BSAD data will almost freeze the price and will have less of a systems impact.
4.	Do you support the approach of allowing error correction of BSAD under	YES	On the same basis as manifest error.

Q	Question	Response	Rationale
	exceptional circumstances only?		
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	NO	Adding option fees to accepted offers would have an extremely randomising affect on the price. NGC will schedule based on the offer price of say £100/MWh, leaving off a non-standing reserve generator at say £110/MWh. With an option fee of say £1,000/MWh, this slight change in the schedule switches the marginal price from £110/MWh to £1,100/MWh.
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	Unnecessary complication
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		Negative given the incentive on portfolio generators to self insure (and then self balance)
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		Difficult to know in advance – but clearly there will be an effect.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on		While we retain pay-as-bid then clearly the marginal price cannot be cost reflective. This will increase price spread and risk on parties and will cause suppliers to go excessively long with consequent effect on cost to customers.

Q	Question	Response	Rationale
	the targeting of the costs incurred in energy balancing the system at those in imbalance?		
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES / NO	Not a lot – barring occasional on the day panics.
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		This will increase risk on all parties: Suppliers will attempt to buy longer at peaks; Single site generators can insure by doing a contract to MVRN deal with a portfolio generator (at a price) (alternatively they can negotiate non-firm contracts with NGT outside the balancing mechanism); and Portfolio generators will carry their own reserve and risk disobeying the grid code. Increased cost to customers – particularly those with volatile demand.
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	See above
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		Increase it but little effect on party's behaviour.
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	Significantly so – the BSC is likely to become a contributory factor in Party insolvency.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site		See 13

Q	Question	Response	Rationale
	generator, small Supplier)?		
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		Reinforce the current trend towards oligopoly.
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
22.	Are there any further comments on P137 that you wish to make?	YES / NO	A trading company that is insulated from imbalance risk (unless it chooses to take a position) is attempting to significantly increase that risk – hence increase the risk of Party insolvency.

P136_137_ASS_05 – GdF Marketing**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	No	We believe that the risks associated with a move from the current P78 based pricing methodology far outweigh any benefits delivered by a marginal priced approach. As we do not support a move to a marginal based pricing regime we do not agree with the proposed definition of the marginal price outlined within this modification proposal and do not have a preference for an alternative marginal definition. Indeed we note that the PSMG were concerned about the potential effect on the demand side of the market of high energy imbalance prices and that a discussion took place around the option of introducing an artificial cap on the marginal price. This is counter intuitive to the approach adopted to date in that a market based mechanism is the most appropriate.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		We agree that in a perfect world participants should be subject to the most accurate reflection of imbalance price, however it is clear that this is not feasible due to the complexity of the interaction between system and energy balancing activities. This is therefore obviously an added complication of adoption of a marginal approach. NIV in real time with only firm volumes would appear appropriate.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	Option C would deliver a firm indication of real time costs
4.	Do you support the approach of allowing error	YES / NO	No this would introduce further uncertainty in the cost discovery process.

Q	Question	Response	Rationale
	correction of BSAD under exceptional circumstances only?		
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		Disaggregated BSAD would improve transparency in this area.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	NO	Not at this time. We would support a review of the BSAD approach as a priority rather than a change to the current P78 pricing methodology in place now.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	NO	This adds further complexity to an already overcomplicated pricing methodology.
8.	Do you wish to propose a different treatment of BSAD for P136?	YES	A review of the application of BSAD would appear to be timely
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	This is because of the difficulty in assessing the point at which the non-delivered energy volume actually sat. When accepted NGC would not have known that the energy would not be delivered. Post event adjustment will lead to uncertainty of outturn price until the SF run.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	The complexity of this approach v the overall real benefit must be assessed. Software coding would be costly and complex.
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?	Detrimental	A marginal approach will encourage self-balancing actions by generators who will withhold volumes from the market as insurance, with the supply side anxious to procure additional volume due to the difficulties of demand forecasting.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?	Detrimental	See answer to question 11 above. Marginal pricing could significantly reduce BM volumes

Q	Question	Response	Rationale
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?	Detrimental	The real time operation of the system however must bring together a range of events/stresses on the system that interacts to produce a very different profile half-hour by half-hour. NGC have to balance energy and system requirements making the definitive separation of associated costs impossible to allocate accurately. Further work in this area to understand the dependencies and cost of NGC actions would be of more benefit to participants rather than moving to a marginal pricing approach at this time.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	Due to the potential reduction in liquidity in response to the threat of exposure to marginal prices in the BM
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		Costs overall will increase feeding through to those who ultimately pay them, the consumer.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	Significantly for both generation and demand, both through generation plant failure or inaccuracy of demand forecasting.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		This is difficult to assess and is dependent upon participant behaviour and plant/demand forecasting reliability
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	Significantly more complex. If P136 were adopted then a complete overhaul of the credit arrangements would be required adding significant costs onto the final delivery of a P136 solution. In addition participant costs in this area would be significantly increased due to the added risk and uncertainty of outturn prices.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Proposed modification P136 would introduce significant market risk regarding the increased potential for generation reserve to be withheld by portfolio players from the market to mitigate against potential supply side shortfalls.

Q	Question	Response	Rationale
			The risks associated with exposure to marginal pricing may be assessed as too high for those who are seeking to enter the market and therefore may act as a barrier to entry.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?	Detrimental	See our response to questions 18 and 19 above.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See our response to questions 18 and 19 above.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	Not at this point in time however we are aware that the modification group have yet to conclude debate in all areas of this proposal.
23.	Are there any further comments on P136 that you wish to make?	YES	<p>The current pricing methodology delivered by modification proposal P78 has had significant impact on the prices to which parties out of balance are exposed. This methodology has yet to be tested during a winter peak maximum demand situation however has delivered high prices and additional volume, and therefore one would assume 'the correct pricing signals', during several instances this summer when NGC issued a series of Notice of Insufficient System Margin warnings.</p> <p>Ofgem stated in their P78 decision letter of 9th September 2002 that the P78 proposal would 'increase the level of competition by encouraging Parties to trade ahead of Gate Closure', whilst NGC stated that 'it had not experienced any adverse effects on the behaviour of market participants since the changes to BRL and Gate Closure and that the proposed change to Energy Imbalance Prices on 25th February 2003 presented no operational concerns'.</p>

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	NO	We believe that the risks associated with a move from the current P78 based pricing methodology far outweigh any benefits delivered by a marginal priced approach. As we do not support a move to a marginal based pricing regime we do not agree with the proposed definition of the marginal price outlined within this modification proposal and do not have a preference for an alternative marginal definition. Indeed we note that the PSMG were concerned about the potential effect on the demand side of the market of high energy imbalance prices and that a discussion took place around the option of introducing an artificial cap on the marginal price. This is counter intuitive to the approach adopted to date in that a market based mechanism is the most appropriate.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		We agree that in a perfect world participants should be subject to the most accurate reflection of imbalance price, however it is clear that this is not feasible due to the complexity of the interaction between system and energy balancing activities. This is therefore obviously an added complication of adoption of a marginal approach. NIV in real time with only firm volumes would appear appropriate.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	Option C would deliver a firm indication of real time costs
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	This would introduce further uncertainty in the cost discovery process

Q	Question	Response	Rationale
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Adjustment variables (BPA and SPA)) set out by P137?	NO	This adds further complexity to an already overcomplicated pricing methodology.
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	A review of the application of BSAD would appear to be timely
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	This is because of the difficulty in assessing the point at which the non-delivered energy volume actually sat. When accepted NGC would not have known that the energy would not be delivered. Post event adjustment will lead to uncertainty of outturn price until the SF run.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	The complexity of this approach v the overall real benefit must be assessed. Software coding would be costly and complex.
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?	Detrimental	A marginal approach will encourage self-balancing actions by generators who will withhold volumes from the market as insurance, with the supply side anxious to procure additional volume due to the difficulties of demand forecasting.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?	Detrimental	See answer to question 11 above. Marginal pricing could significantly reduce BM volumes
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?	Detrimental	The real time operation of the system however must bring together a range of events/stresses on the system that interacts to produce a very different profile half-hour by half-hour. NGC have to balance energy and system requirements making the definitive separation of associated costs impossible to allocate accurately. Further work in this area to understand the dependencies and cost of NGC actions would be of more benefit to participants rather than moving to a marginal pricing approach at this time
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so	YES	Due to the potential reduction in liquidity in response to the threat of exposure to marginal prices in the BM

Q	Question	Response	Rationale
	why? If not, why not?		
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		Costs overall will increase feeding through to those who ultimately pay them, the consumer.
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	Significantly for both generation and demand, both through generation plant failure or inaccuracy of demand forecasting.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		This is difficult to assess and is dependent upon participant behaviour and plant/demand forecasting reliability
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	Significantly more complex. If P136 were adopted then a complete overhaul of the credit arrangements would be required adding significant costs onto the final delivery of a P136 solution. In addition participant costs in this area would be significantly increased due to the added risk and uncertainty of outturn prices.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Proposed modification P135 would introduce significant market risk regarding the increased potential for generation reserve to be withheld by portfolio players from the market to mitigate against potential supply side shortfalls.
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?	Detrimental	See our response to questions 16 and 17 above
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	Detrimental	See our response to questions 16 and 17 above
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives?	Detrimental	See our response to questions 16 and 17 above

Q	Question	Response	Rationale
	Please give rationale and state which objective(s)		
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	Not at this point in time however we are aware that the modification group have yet to conclude debate in all areas of this proposal
22.	Are there any further comments on P137 that you wish to make?	YES	<p>The current pricing methodology delivered by modification proposal P78 has had significant impact on the prices to which parties out of balance are exposed. This methodology has yet to be tested during a winter peak maximum demand situation however has delivered high prices and additional volume, and therefore one would assume 'the correct pricing signals', during several instances this summer when NGC issued a series of Notice of Insufficient System Margin warnings.</p> <p>Ofgem stated in their P78 decision letter of 9th September 2002 that the P78 proposal would 'increase the level of competition by encouraging Parties to trade ahead of Gate Closure', whilst NGC stated that 'it had not experienced any adverse effects on the behaviour of market participants since the changes to BRL and Gate Closure and that the proposed change to Energy Imbalance Prices on 25th February 2003 presented no operational concerns'</p>

P136_137_ASS_006 – ScottishPower**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES	Notwithstanding the fact that we do not support this Mod Proposal, we agree that the definition is appropriate.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	Notwithstanding the fact that we do not support this Mod Proposal, we believe that due to the criticality of the marginal price affecting parties decision at the time, the price should be frozen as soon as possible using as accurate as possible the available data.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the	(c)	Notwithstanding the fact that we do not support this Mod Proposal, as mentioned above, due to the criticality of the marginal price affecting parties decision at the time, the price should be frozen as soon as possible using as accurate as possible the available data.

Q	Question	Response	Rationale
	Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	Notwithstanding the fact that we do not support this Mod Proposal, the process needs to be reasonable, otherwise it would just open to legal challenge. The Panel should be tasked to determine under such exceptional circumstances.
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		Notwithstanding the fact that we do not support this Mod Proposal, we believe the current treatment of BSAD and option fees is appropriate.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	NO	We believe the current treatment of BSAD and option fees is appropriate.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	NO	We believe the current treatment of BSAD and option fees is appropriate. Also, P137 treatment is totally inappropriate. It artificially increases SBP (through the increased BPA) and brings in the problems identified in P135 in relation to high imbalance prices (i.e. encourages plant to be withheld in case of trip, and does not encourage less reliable plant to make capacity available). Option fees are like insurance - cost is still incurred even if the option is not exercised.
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	We believe the current treatment of BSAD and option fees is appropriate.

Q	Question	Response	Rationale
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	Notwithstanding the fact that we do not support this Mod Proposal, the need to have frozen prices, due to the criticality of the marginal price affecting parties decision at the time, as soon as possible using as accurate as possible the available data means that it would be difficult and untimely to determine whether a non delivery is genuine or not.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	Notwithstanding the fact that we do not support this Mod Proposal, we believe that these could be genuine trades due to changes in circumstances and therefore should not be tagged out.
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		We believe that parties would be withholding capacities and there would be significant increase in cost of operations for all concerned. It will decrease security of supply. The issue of post Gate Closure plant loss needs to be addressed, to ensure that generation is encouraged to provide spare capacity and to balance at Gate Closure. It would be far more efficient for the System Operator to utilise the capacity to balance the system. As indicated in the P135 consultation, the industry is quite happy to pay for this service by the System Operator. The current imbalance charging mechanism still ensures that "pollutants pay".
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		We believe there could be 2 types of behaviour: - 1. Parties would try to operate on a long position to cover any potential imbalance e.g. any plant trips etc. 2. Parties would try to manipulate the market prices through small volume high price offers.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy		The current mechanism of average pricing already target costs at those in imbalance. Marginal imbalance price will over recover the cost of balancing the system, decreasing efficiency of the market.

Q	Question	Response	Rationale
	Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		Parties exposed to the main price are charged the marginal price, whereas in reality the cost of balancing is lower than the margin. Therefore the Mod does not reflect energy balancing.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	Short term spot prices may be affected. Forward market prices could also be affected but to a less extent. Traders in the market would try to link the market price with the imbalance price as much as possible, as the exposure of not trade could be too great under marginal pricing.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		We believe due to the need to manage additional risk exposure, all parties would incur incremental costs, but small parties and renewables would be particularly impacted due to their relative lack of portfolio. In any case, such costs would ultimately pass back to the consumers.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	Risk exposure of imbalance would be more extreme. Due the current NETA arrangement of gate closure, such exposure cannot be readily managed, and risk management cost would be substantial/excessive.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing)		Over cost recovery means that RCRC will be high, allowing a small number of Parties to benefit from artificially high imbalance prices, thus reducing competition. It could only mean that parties will try to maintain a long position or withhold capacity to minimise the risk of imbalance. Such actions render the whole market inefficient.

Q	Question	Response	Rationale
	behaviour of Parties?		
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	Due to the potential extreme imbalance prices, imbalance costs could be in excessive of the existing credit cover that could expose the industry to greater risk of default and shortfall in the event a party fails (unless the credit cover is increased significantly, which also increases the cost of participation.)
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		The Mod will impact all parties as mentioned above, but single site generator and small Supplier in particular, could find the risk exposure unmanageable and expensive, seriously affecting their viability.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		It <u>would not</u> better facilitate the achievement of BSC Objective 3(c) as it creates significant risk and cost for generators and parties.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	<p>As we have stated previously, while we support the principle of sending clearer price signals to the market which would better facilitate BSC objective (b) "<i>the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System</i>", but we believe that this is unlikely to happen with this.</p> <p>As with P135, this Mod does not encourage capacity to be made available at times of system stress and will increase the risk that less reliable plant will not be made available at all due to the potentially damaging imbalance charges associated with unexpected plant failure.</p> <p>Acceptance of the modification will greatly increase the risk of generators going out of business and also significantly increase the cost to participants in managing the risk exposure. This, as already been highlighted in P135 consultation, would be bad for promoting competition (Objective c) as potential new entrants would be more reluctant to participate in such market. It also <u>does not</u> better facilitate the efficiency objective (Objective d), as parties would be withholding capacities and there</p>

Q	Question	Response	Rationale
			would be significant increase in cost of operations for all concerned. It would be far more efficient for the System Operator to utilise the capacity to balance the system. As indicated in the P135 consultation, the industry is quite happy to pay for this service by the System Operator. The current imbalance charging mechanism still ensures that "pollutants pay".
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES	This proposed modification aim to tackle the security of supply issue but we believe the marginal price solution will exacerbate the problem. In particular, treatment of post Gate Closure plant loss needs to be addressed as imbalance settlement does not take place at Gate Closure, but some time later. Unless this is recognised and considered appropriately, generators would not be encouraged to provide any potential spare capacity to meet peak demand or be incentivised to balance at Gate Closure.
23.	Are there any further comments on P136 that you wish to make?	YES	Notwithstanding the fact that we do not support this Mod Proposal, we believe an alternative, which would encourage generators to offer any potential spare capacity is required. Specifically, treatment of post Gate Closure plant loss needs to be addressed, as currently participants are prohibited from adjusting their position to maintain the balance, which they had achieved at Gate Closure. In this situation, either the shortfall should be treated as system balancing and removed from the price calculation or the generator should be able to self-balance after Gate Closure. There should be some dispensation for the generators in this circumstance.

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal	YES	Notwithstanding the fact that we do not support this Mod Proposal, we agree that the definition is appropriate.

Q	Question	Response	Rationale
	price would you propose?		
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	Notwithstanding the fact that we do not support this Mod Proposal, we believe that due to the criticality of the marginal price affecting parties decision at the time, the price should be frozen as soon as possible using as accurate as possible the available data.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(c)	Notwithstanding the fact that we do not support this Mod Proposal, as mentioned above, due to the criticality of the marginal price affecting parties decision at the time, the price should be frozen as soon as possible using as accurate as possible the available data.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	Notwithstanding the fact that we do not support this Mod Proposal, the process needs to be reasonable, otherwise it would just open to legal challenge. The Panel should be tasked to determine under such exceptional circumstances.
5.	Do you support the usage of option fees (as currently	NO	We believe the current treatment of BSAD and option fees is appropriate. Also, P137 treatment is totally inappropriate. It artificially increases SBP (through the increased BPA)

Q	Question	Response	Rationale
	reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?		and brings in the problems identified in P135 in relation to high imbalance prices (i.e. encourages plant to be withheld in case of trip, and does not encourage less reliable plant to make capacity available). Option fees are like insurance - cost is still incurred even if the option is not exercised.
6.	Do you wish to propose a different treatment of BSAD for P137?	YES	Notwithstanding the fact that we do not support this Mod Proposal, we believe the current treatment of BSAD and option fees is appropriate.
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	Notwithstanding the fact that we do not support this Mod Proposal, the need to have frozen prices, due to the criticality of the marginal price affecting parties decision at the time, as soon as possible using as accurate as possible the available data means that it would be difficult and untimely to determine whether a non delivery is genuine or not.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	Notwithstanding the fact that we do not support this Mod Proposal, we believe that these could be genuine trades due to changes in circumstances and therefore should not be tagged out.
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		We believe that parties would be withholding capacities and there would be significant increase in cost of operations for all concerned. It will decrease security of supply. The issue of post Gate Closure plant loss needs to be addressed, to ensure that generation is encouraged to provide spare capacity and to balance at Gate Closure. It would be far more efficient for the System Operator to utilise the capacity to balance the system. As indicated in the P135 consultation, the industry is quite happy to pay for this service by the System Operator. The current imbalance charging mechanism still ensures that "pollutants pay".
10.	What effect, in your opinion, will P137 have on Parties behaviour		We believe there could be 2 types of behaviour: - 1. Parties would try to operate on a long position to cover any potential imbalance e.g. any

Q	Question	Response	Rationale
	in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		<p>plant trips etc.</p> <p>2. Parties would try to manipulate the market prices through small volume high price offers.</p>
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>The current mechanism of average pricing already target costs at those in imbalance.</p> <p>Marginal imbalance price will over recover the cost of balancing the system, decreasing efficiency of the market.</p> <p>Parties exposed to the main price are charged the marginal price, whereas in reality the cost of balancing is lower than the margin. Therefore the Mod does not reflect energy balancing.</p>
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	<p>Short term spot prices may be affected. Forward market prices could also be affected but to a less extent. Traders in the market would try to link the market price with the imbalance price as much as possible, as the exposure of not trade could be too great under marginal pricing.</p>
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>We believe due to the need to manage additional risk exposure, all parties would incur incremental costs, but small parties and renewables would be particularly impacted due to their relative lack of portfolio. In any case, such costs would ultimately pass back to the consumers.</p>
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk	YES	<p>Risk exposure of imbalance would be more extreme. Due the current NETA arrangement of gate closure, such exposure cannot be readily managed, and risk management cost would be substantial/excessive.</p>

Q	Question	Response	Rationale
	management?		
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		Over cost recovery means that RCRC will be high, allowing a small number of Parties to benefit from artificially high imbalance prices, thus reducing competition. It could only mean that parties will try to maintain a long position or withhold capacity to minimise the risk of imbalance. Such actions render the whole market inefficient.
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	Due to the potential extreme imbalance prices, imbalance costs could be in excessive of the existing credit cover that could expose the industry to greater risk of default and shortfall in the event a party fails (unless the credit cover is increased significantly, which also increases the cost of participation.)
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		The Mod will impact all parties as mentioned above, but single site generator and small Supplier in particular, could find the risk exposure unmanageable and expensive, seriously affecting their viability.
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		It <u>would not</u> better facilitate the achievement of BSC Objective 3(c) as it creates significant risk and cost for generators and parties.
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	As we have stated previously, while we support the principle of sending clearer price signals to the market which would better facilitate BSC objective (b) " <i>the efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System</i> ", but we believe that this is unlikely to happen with this. As with P135, this Mod does not encourage capacity to be made available at times of system stress and will increase the risk that less reliable plant will not be made available at all due to the potentially damaging imbalance charges associated with unexpected plant failure.

Q	Question	Response	Rationale
			Acceptance of the modification will greatly increase the risk of generators going out of business and also significantly increase the cost to participants in managing the risk exposure. This, as already been highlighted in P135 consultation, would be bad for promoting competition (Objective c) as potential new entrants would be more reluctant to participate in such market. It also <u>does not</u> better facilitate the efficiency objective (Objective d), as parties would be withholding capacities and there would be significant increase in cost of operations for all concerned. It would be far more efficient for the System Operator to utilise the capacity to balance the system. As indicated in the P135 consultation, the industry is quite happy to pay for this service by the System Operator. The current imbalance charging mechanism still ensures that "pollutants pay".
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See our response above.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES	This proposed modification aim to tackle the security of supply issue but we believe the marginal price solution will exacerbate the problem. In particular, treatment of post Gate Closure plant loss needs to be addressed as imbalance settlement does not take place at Gate Closure, but some time later. Unless this is recognised and considered appropriately, generators would not be encouraged to provide any potential spare capacity to meet peak demand or be incentivised to balance at Gate Closure.
22.	Are there any further comments on P137 that you wish to make?	YES	Notwithstanding the fact that we do not support this Mod Proposal, we believe an alternative, which would encourage generators to offer any potential spare capacity is required. Specifically, treatment of post Gate Closure plant loss needs to be addressed, as currently participants are prohibited from adjusting their position to maintain the balance, which they had achieved at Gate Closure. In this situation, either the shortfall should be treated as system balancing and removed from the price

Q	Question	Response	Rationale
			calculation or the generator should be able to self-balance after Gate Closure. There should be some dispensation for the generators in this circumstance.

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P136

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES	The NIV tagging process is designed to distinguish energy actions from system actions. Therefore it is appropriate that a marginal price is derived from the last energy action taken by the SO to balance the system (the highest priced energy offer or the lowest priced energy bid).
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES/NO	Our preference is for the NIV to be derived in real time for all possible balancing actions based on the best available estimates of non-firm volumes (the nature of the acceptances in the BM is such that in "real time" it is only possible to estimate delivered volumes). Ex post adjustment is always required to reflect actual delivery.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy	(a)	Ideally option (a) should be adopted though this carries with it the risk that significant changes in price will occur ex post based on the marginal pricing methodology. If marginal prices were adopted with option (c) we believe that the SO should use all reasonable endeavours to deliver real time information in the BM reporting timescales to allow a best estimate to be provided shortly after Gate Closure. In any event, delivery of material information in volumes and price up to initial settlement is unacceptable under a marginal pricing methodology.

Q	Question	Response	Rationale
	Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	If energy prices are frozen under options (b) and (c) above then it is appropriate to allow adjustments of BSAD under exceptional circumstances. However, we believe that there are strong grounds that SO forward trades should not feed into cash out pricing calculations.
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		Our preference is that SO forward trades (pre Gate Closure) do not feed into the calculation of the main cash price. However, we support reporting of disaggregated BSAD. In addition, non-BMU trades instructed after gate closure should be treated as BOAs and appear in the relevant stack with a price and volume. It should be noted that this option is not under consideration under the current BSAD consultation. We do not support the proposed treatment of option fees as set out in the BSAD consultation (see answer to Question 7 below).
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	YES	SO forward trades are already reflected in the market price, i.e. the reverse price, and in the PNs submitted at Gate Closure. Therefore, the inclusion of BSAD volumes and prices in the main price double counts these actions and ensures that, even with marginal prices, the main price will trend towards the market price (see for example data for the 17 th September 2002, period 40) and artificially reduce the incentive to balance. There may be a case for including post gate closure non-BMU volumes in the relevant stack in price order (treated as BOAs).
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	NO	Standing reserve option fees are related to system insurance for plant trip and the cost of creating spinning reserve and should be priced into individual settlement periods accordingly.
8.	Do you wish to propose a different treatment of BSAD for P136?	YES	As noted above, there is a case for the exclusion of SO forward trades from calculation of the main price out while post gate closure non BMU volumes could be included in the relevant stack in price

Q	Question	Response	Rationale
			order if each trade was treated as a BOAs in disaggregated BSAD.
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	The initial price will be set from the actions instructed by the SO. Option (a) under Q3 will allow volumes to be adjusted ex post to reflect non-delivered volumes. Further, it may be expected that a non-delivered BOA would result in another plant being instructed at a higher price and this would be reflected in cash out. It should be noted that non-delivered volumes also influence the NIV calculation, which could result in a lack of stability in ex post marginal prices.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	<p>BM Unit undo tagging implies that the SO has taken a position with regard to a delivered volume from a BMU and subsequently realises that this position has changed by taking an “undo” action. However, there is no evidence to support such an assertion since the undo action may simply be required as circumstances change through a BM window. Further, an undo action could also be fulfilled by acceptance of a bid or offer from a BOA that is not the lowest priced offer or highest priced bid, but under the proposal such an action is not tagged.</p> <p>BM Unit offset tagging implies that either cheapest offers or most expensive bids in the reverse stack are the undo trades associated with NGC forward trades. This may not be the case, and this methodology appears arbitrary in determining whether BOAs should be part of the price setting methodology.</p>
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		Marginal pricing under P136/P137), with the potential for more extreme prices, should encourage parties to contract efficiently.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid –		Whilst in theory marginal pricing in cash out may encourage changes to Bid offer pricing strategies, in practice to retention of the pay as bid auction in the BM together with wider regulatory concerns means that the impact is likely to be limited.

Q	Question	Response	Rationale
	Offer pricing strategies?		
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		While a pay as bid auction is retained in the BM, it is likely that the costs reflected into cash out will result in over recovery of costs when compared with the costs recovered through BSUoS.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	Improved price signals in the BM will be reflected in the forwards and spot markets.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		Marginal pricing in the BM will encourage parties to balance more efficiently with consequential benefits for parties and customers.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	NO	Changes to cash out pricing are part of the regulatory risk under which the industry operates. This risk is already factored into power prices.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think		Marginal pricing is likely to increase the cashflows in RCRC when compared with BSUoS. However, RCRC impacts are a second order effect of changing cash out prices. It is unlikely that parties would change behaviour in response to RCRC changes.

Q	Question	Response	Rationale
	this will have on the (balancing) behaviour of Parties?		
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	NO	Marginal pricing should result in parties reducing exposure to imbalance costs.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Marginal pricing should encourage parties to balance more efficiently.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		By encouraging parties to balancing efficiently, marginal pricing should improve liquidity and create conditions for a more competitive market.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	We support the introduction of marginal pricing in principle. However, we are concerned that the methodology in P136 may not accurately reflect the costs of energy balancing. Until a methodology can be defined that properly reflects the resource cost associated with energy balancing, marginal pricing will not better facilitate Objective (c) in relation to competition or Objective (b) in relation to the economic and co-ordinated operation of the system.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES	It is worth noting that plant accepted through offers (or bids) may, in effect, be "constrained on" (or "constrained off") as a result of particular plant dynamics such as "minimum non zero time" (MNZT) (or "minimum zero time" (MZT)). Such acceptances distort marginal prices since plant accepted out of price order will remain on (or off) the system beyond the wall even though other plant is available.
23.	Are there any further comments on P136 that you wish to make?	YES	One of the key issues for marginal pricing in the treatment of standing reserve option fees. Allocating option fees on the basis of expected utilisation potentially introduces a serious market

Q	Question	Response	Rationale
			distortion and prevents to discovery of a "true" marginal price. P136 may provide a better solution if option fees were based on an annualised allocation of the costs based on historic utilisation, or a variable cost based on an assessment of the cost of plant trip and spinning reserve

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	YES	The NIV tagging process is designed to distinguish energy actions from system actions. Therefore it is appropriate that a marginal price is derived from the last energy action taken by the SO to balance the system (i.e. the highest priced energy offer or the lowest priced energy bid).
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES / NO	Our preference is for the NIV to be derived in real time for all possible balancing actions based on the best available estimates of non-firm volumes (the nature of the acceptances in the BM is such that in "real time" it is only possible to estimate delivered volumes). Ex post adjustment is always required to reflect actual delivery.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b)	(a)	Ideally option (a) should be adopted though this carries with it the risk that significant changes in price will occur ex post based on the marginal pricing methodology. If marginal prices were adopted with option (c) we believe that the SO should use all reasonable endeavours to deliver real time information in the BM reporting timescales to allow a best estimate to be provided shortly after Gate Closure. In any event, delivery of material information in volumes and price up to initial settlement is unacceptable under a marginal pricing methodology.

Q	Question	Response	Rationale
	freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	If energy prices are frozen under options (b) and (c) above then it is appropriate to allow adjustments of BSAD under exceptional circumstances. However, we believe that there are strong grounds that SO forward trades (pre gate closure) should not feed into cash out pricing calculations.
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	NO	Standing reserve option fees are related to system insurance in relation to plant trip and the cost of creating spinning reserve and should be priced into individual settlement periods accordingly.
6.	Do you wish to propose a different treatment of BSAD for P137?	YES	There is a case for the exclusion of SO forward trades (pre Gate Closure) from cash out while post gate closure non-BMU volumes should be included in the relevant stack in price order as if each trade was a BOAs in disaggregated BSAD.
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	The initial price will be set from the actions instructed by the SO. Option (a) under Q3 will allow volumes to be adjusted ex post to reflect non-delivered volumes. Further, it may be expected that a non-delivered BOA would result in another plant being instructed at a higher price and this would be reflected in cash out. It should be noted that non-delivered volumes also influence the NIV calculation, which could result in a lack of stability in ex post marginal prices.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	BM undo tagging implies that the SO has taken a position with regard to a delivered volume from a BMU and subsequently realises that this position has changed by taking an “undo” action. However, there is no evidence to support such an assertion since the undo action may simply be required as circumstances change through a BM window. Further, an undo action could also be fulfilled by acceptance of a bid or offer from a BOA that is not the lowest priced offer or highest priced bid, but under the proposal such an action is not tagged.

Q	Question	Response	Rationale
			BMU offset tagging implies that the either cheapest offers or most expensive bids in the reverse stack are the undo trades associated with NGC forward trades. This may not be the case, and the offset methodology appears arbitrary in determining whether BOAs should be part of the price setting methodology.
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		Whilst in theory marginal pricing in cash out may encourage changes to Bid offer pricing strategies, in practice to maintenance of the pay as bid auction in the BM together with wider regulatory concerns means that the impact is likely to be limited.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		Whilst in theory marginal pricing in cash out may encourage changes to Bid/Offer pricing strategies, in practice retention of the pay as bid auction in the BM and wider regulatory concerns means that the impact is likely to be limited.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		While a pay as bid auction is retained in the BM, it is likely that the costs reflected into cash out will result in over recovery of costs when compared with the costs recovered through BSUoS.
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	Improved price signals in the BM will impact and improve prices in the forwards and spot markets.

Q	Question	Response	Rationale
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		Marginal pricing in the BM will encourage parties to balance more efficiently with consequential benefits for parties and customers.
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	NO	Changes to cash out pricing are part of the regulatory risk under which the industry operates. This risk is already factored into power prices.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		Marginal pricing is likely to increase the cashflows in RCRC when compared with BSUs. However, RCRC impacts are a second order effect of changing cash out prices. It is unlikely that parties would change behaviour in response to RCRC changes.
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	NO	Marginal pricing should result in parties reducing exposure to imbalance costs.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Marginal pricing should result in parties reducing exposure to imbalance costs.
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		By encouraging parties to balance efficiently, marginal pricing should improve liquidity and create conditions for a more competitive market.

Q	Question	Response	Rationale
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	We support the introduction of marginal pricing in principle. However, we are concerned that the methodology in P137 may not accurately reflect the costs of energy balancing. Until a methodology can be defined that properly reflects the resource cost associated with energy balancing, marginal pricing will not better facilitate Objective (c) in relation to competition or Objective (b) in relation to the economic and co-ordinated operation of the system.
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See answer to Question 19.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES	It is worth noting that plant accepted through offers (or bids) may, in effect, be "constrained on" (or "constrained off") as a result of particular plant dynamics such as "minimum non zero time" (MZNT) (or "minimum zero time" (MZT)). Such acceptances distort marginal prices since plant accepted out of price order will remain on (or off) the system beyond the wall even though other plant is available.
22.	Are there any further comments on P137 that you wish to make?	YES	One of the key issues for marginal pricing in the treatment of standing reserve option fees. Allocating option fees on the basis of expected utilisation potentially introduces a serious market distortion and prevents to discovery of a "true" marginal price. P136/7 may provide a better solution if option fees were based on an annualised allocation of the costs based on historic utilisation, or a variable cost based on an assessment of the cost of plant trip and spinning reserve

P136_137_ASS_08 – InterGen UK Ltd**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	NO	We believe that should P136 be introduced, a cap on SBP is required to remove the risk of financial collapse of Parties through unmanageable system price exposure during periods of system stress.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		It is important that NIV is determined as accurately as possible and is not subject to artificial deadlines. Estimates should be used for the indicative prices with more accurate figures published as they become available.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a)	It is important that the price calculations are not subject to the vagaries of the information available in BMRA timescales. Therefore changes should be allowed with revision of prices as and when new data comes to light. The lack of confidence in indicative system prices or the increased delay in publishing them is a major drawback of approving P136.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	As Q3.
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		No comment.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	NO	Balancing Services are a key part of energy balancing and so should be included in the system price calculations.

Q	Question	Response	Rationale
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES / NO	No comment.
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	It is not part of the costs of balancing the system.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO	No comment.
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		<p>The current level of system price volatility and unpredictability already place sufficient incentive on parties to balance where they are able to do so.</p> <p>The mod will lead to generators withholding capacity for sale during periods of system stress to avoid exposure to SBP.</p> <p>Therefore this mod does not better achieve Applicable BSC Objective 3(b).</p>
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		Pricing strategies are continually reviewed and so it would be difficult to pinpoint changes in behaviour arising solely from P136.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>Cost reflectivity and targeting is already poor as reflected by the massive over recovery through imbalance charges when SBP spikes. P136 will exacerbate this situation.</p> <p>Very small volumes of extreme priced bids or offers could set the imbalance prices which would in no way be reflective of market conditions or NGC's</p>

Q	Question	Response	Rationale
			costs of balancing the system.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	Yes	<p>Increased volatility in system prices will tend to drive forward and spot prices higher, especially during periods of system stress.</p> <p>Generators will need to achieve higher prices to cover the increased SBP exposure at times of plant trip. If they cannot cover the risk they will simply withhold that generation, thereby inflating prices.</p>
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		The increase in risk that marginal pricing generates effectively increases incremental costs due to the need to manage those risks. This must ultimately be passed onto consumers.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	All physical players face an increased financial risk if they are out of balance, particularly if they are short. This will therefore drive the system longer than it currently is and lead to hoarding of surplus capacity.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>P136 will increase the level of RCRC. A high RCRC effectively indicates poor cost allocation.</p> <p>The level of RCRC cannot be predicted and is published so long after the event that it is unlikely to lead to any change in a participant's behaviour.</p>
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	Substantially so. The possibility of a very small volume balancing action setting an extreme SBP increases the probability that a Party will be unable to pay imbalance charges.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		It is likely to drive all Parties to be long rather than balanced. It will lead to the hoarding of capacity by generators, especially portfolio generators.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		We remain of the opinion that P136 undermines Applicable BSC Objective 3 (c).

Q	Question	Response	Rationale
			<p>The penal SBP's which would arise as a result of P136 are likely to encourage generators to withhold capacity, particularly at times of system stress.</p> <p>The current spread between SBP and SSP during periods of system stress already provides more than adequate incentive on Parties to balance their position where this is within their control. Higher SBP's will simply increase the penalty on generators who trip rather than encourage the to forward trade.</p> <p>There is already a substantial smearing of imbalance cost over / under-recovery through RCRC indicating that costs are not correctly allocated to those that cause them under the current arrangements. Marginal pricing simply exacerbates this situation.</p>
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See Q11 & 20.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
23.	Are there any further comments on P136 that you wish to make?	NO	

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price	NO	We believe that should P136 be introduced, a cap on SBP is required to remove

Q	Question	Response	Rationale
	proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?		the risk of financial collapse of Parties through unmanageable system price exposure during periods of system stress.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		It is important that NIV is determined as accurately as possible and is not subject to artificial deadlines. Estimates should be used for the indicative prices with more accurate figures published as they become available.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a)	It is important that the price calculations are not subject to the vagaries of the information available in BMRA timescales. Therefore changes should be allowed with revision of prices as and when new data comes to light. The lack of confidence in indicative system prices or the increased delay in publishing them is a major drawback of approving P137.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	As Q3.
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	YES / NO	No comment.
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	It is not part of the costs of balancing the system.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV	YES / NO	No comment.

Q	Question	Response	Rationale
	derivation?		
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		<p>The current level of system price volatility and unpredictability already place sufficient incentive on parties to balance where they are able to do so.</p> <p>The mod will lead to generators withholding capacity for sale during periods of system stress to avoid exposure to SBP.</p> <p>Therefore this mod does not better achieve Applicable BSC Objective 3(b).</p>
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		Pricing strategies are continually reviewed and so it would be difficult to pinpoint changes in behaviour arising solely from P137.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>Cost reflectivity and targeting is already poor as reflected by the massive over recovery through imbalance charges when SBP spikes. P136 will exacerbate this situation.</p> <p>Very small volumes of extreme priced bids or offers could set the imbalance prices which would in no way be reflective of market conditions or NGC's costs of balancing the system.</p>
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	<p>Increased volatility in system prices will tend to drive forward and spot prices higher, especially during periods of system stress.</p> <p>Generators will need to achieve higher prices to cover the increased SBP exposure at times of plant trip. If they cannot cover the risk they will simply withhold that generation, thereby inflating the price.</p>
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		The increase in risk that marginal pricing generates effectively increases incremental costs due to the need to manage those risks. This must ultimately be passed onto consumers.

Q	Question	Response	Rationale
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	All physical players face an increased financial risk if they are out of balance, particularly if they are short. This will therefore drive the system longer than it currently is and lead to hoarding of surplus capacity.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>P137 will increase the level of RCRC. A high RCRC effectively indicates poor cost allocation.</p> <p>The level of RCRC cannot be predicted and is published so long after the event that it is unlikely to lead to any change in a participant's behaviour.</p>
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	Substantially so. The possibility of a very small volume balancing action setting an extreme SBP increases the probability that a Party will be unable to pay imbalance charges.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		It is likely to drive all Parties to be long rather than balanced. It will lead to the hoarding of capacity by generators, especially portfolio generators.
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		<p>We remain of the opinion that P137 undermines Applicable BSC Objective 3 (c).</p> <p>The penal SBP's which would arise as a result of P137 are likely to encourage generators to withhold capacity, particularly at times of system stress.</p> <p>The current spread between SBP and SSP during periods of system stress already provides more than adequate incentive on Parties to balance their position where this is within their control. Higher SBP's will simply increase the penalty on generators who trip rather than encourage the to forward trade.</p> <p>There is already a substantial smearing of imbalance cost over / under-recovery through RCRC indicating that costs are not correctly allocated to those that cause them under the current arrangements. Marginal pricing simply exacerbates this situation.</p>

Q	Question	Response	Rationale
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See Q9 and 18.
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See Q19!
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
22.	Are there any further comments on P137 that you wish to make?	NO	

P136_137_ASS_009 – Alcan Power and Smelting UK
P136

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	NO	Alcan does not support marginal cashout pricing under any proposed definition.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real	YES	Real time NIV using estimates of non-firm volumes.

Q	Question	Response	Rationale
	time with only firm volumes?		
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a)	The potential for volatile prices increases the need for such prices to be based on the most accurate data and to be reflective of the costs of imbalance. It is therefore preferred to retain the provision for changes to imbalance prices as further information becomes available.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO	
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	YES / NO	
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES / NO	
8.	Do you wish to propose a different treatment of BSAD for P136?	YES / NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid –	YES / NO	

Q	Question	Response	Rationale
	Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?		
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO	
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		<p>Efficiency of the system would be compromised under P136 for several reasons:</p> <ul style="list-style-type: none"> - A marginal imbalance price is likely to over recover costs and lead to higher value of RCRC - The potential impact of a marginal SBP would encourage players to go long through gate closure over peak periods. This would not be mitigated by the risk of a marginal SSP, which is unlikely to be as punitive a charge. - Further inefficiency is created, as participants are encouraged to hold their own reserve to mitigate potential imbalance risks. A more efficient means is for the Transmission Operator to procure such reserve on behalf of the system as a whole.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		<p>This is difficult to foresee, although there would be a tendency for pricing strategies to become more volatile as Bid - Offers are made at the expected marginal price.</p> <p>In addition generators are likely to be discouraged from providing maximum output over peak times due to increased exposure in the event of a unit trip.</p>
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in		<p>As stated in answer to Question 11, P136 would lead to an over recovery of balancing costs.</p> <p>Although some participants will receive a cushion against the costs of imbalance</p>

Q	Question	Response	Rationale
	energy balancing the system at those in imbalance?		through RCRC, others – namely embedded generators – are prevented from full access to this fund and will bear a disproportionate amount of the total costs of imbalance.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	<p>The threat of an increased price spread between SBP and SSP will encourage players to cover risks either through fully or over-contracting. One would expect that this would lead to an increase in price in forward markets, and potentially extreme volatility in spot markets.</p> <p>It is worth noting that forward curve prices have already risen substantially without marginal imbalance pricing.</p>
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>Small and single site generators and small suppliers will be the most affected by P136. The former do not have the option to 'self balance' through carrying reserve generation to cover for Trip Risk, whereas the latter suffer from diseconomies of scale in relation to demand forecast error.</p> <p>Both suffer from the lack of a natural hedge between generation and demand enjoyed by vertically integrated players, and both would suffer the risk of bankruptcy if exposed to extreme prices.</p> <p>New entrants into either the small generation or small supplier area will be discouraged by P136. This particularly applies to small and renewable generation technologies that are by nature intermittent</p> <p>All parties will face increased costs, or at least the risk of increased costs, and this will be reflected in higher costs to consumers, particularly those with volatile demand.</p>

Q	Question	Response	Rationale
			Finally, consumers will pay the 'risk premium' twice to cover the generation trip risk and supplier demand forecast risk.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	The parties which are most affected, as detailed in question 15 will be unable to manage the risks internally and the cost of procuring risk management tools such as options and reserve from the market are likely to be prohibitive.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>As P136 is likely to lead to an over-recovery of costs RCRC will increase.</p> <p>As noted in Question 13 (and on page 20 of the Second Assessment Consultation Document), single site generators are prevented from access to RCRC. In addition, embedded generators do not have access to RCRC and reduce their supplier's potential access. This poses the potential of additional costs on the embedded generator.</p> <p>Other players will view RCRC as a potential cushion against extreme SBP.</p>
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	Credit risk will increase exponentially under P136.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		See answer to Questions 15 and 17, particularly with reference to embedded generation.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		P136 would impact on all physical players with imbalance risks, however smaller players will be effected to a greater extent as outlined in questions 13, 15, 16, 18, and 19.

Q	Question	Response	Rationale
			This would have a detrimental effect upon objective 3 (c) and lead to even greater concentration of market power in the industry.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	As outlined above P136 does not better facilitate any Applicable BSC Objective. Alcan does not believe that marginal imbalance pricing under any proposed methodology would facilitate the achievement of any BSC Objective.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES	Embedded generators' disadvantaged access to higher RCRC.
23.	Are there any further comments on P136 that you wish to make?	NO	

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	NO	Alcan does not support marginal cashout pricing under any proposed definition.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES / NO	Real time NIV using estimates of non-firm volumes.
3.	Of the three options set out in regards to the stability of	(a)	The potential for volatile prices increases the need for such prices to be

Q	Question	Response	Rationale
	the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)		based on the most accurate data and to be reflective of the costs of imbalance. It is therefore preferred to retain the provision for changes to imbalance prices, as further information becomes available.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO	
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	YES / NO	
6.	Do you wish to propose a different treatment of BSAD for P137?	YES / NO	
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES / NO	
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO	
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		

Q	Question	Response	Rationale
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		ough some participants will receive a cushion against the costs of imbalance through RCRC, others – namely embedded generators – are prevented from full access to this fund and will bear a disproportionate amount of the total costs of imbalance.
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	<p>The threat of an increased price spread between SBP and SSP will encourage players to cover risks either through fully or over-contracting. One would expect that this would lead to an increase in price in forward markets, and potentially extreme volatility in spot markets.</p> <p>It is worth noting that forward curve prices have already risen substantially without marginal imbalance pricing.</p>
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>Small and single site generators and small suppliers will be the most affected by P137. The former do not have the option to 'self balance' through carrying reserve generation to cover for Trip Risk, whereas the latter suffer from diseconomies of scale in relation to demand forecast error.</p> <p>Both suffer from the lack of a natural hedge between generation and demand enjoyed by vertically integrated players, and both would suffer the risk of bankruptcy if exposed to extreme prices.</p> <p>New entrants into either the small generation or small supplier area will be discouraged by P137. This particularly applies to small and renewable generation technologies that are by nature intermittent</p>

Q	Question	Response	Rationale
			<p>All parties will face increased costs, or at least the risk of increased costs, and this will be reflected in higher costs to consumers, particularly those with volatile demand.</p> <p>Finally, consumers will pay the 'risk premium' twice to cover the generation trip risk and supplier demand forecast risk.</p>
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	The parties which are most affected, as detailed in question 13 will be unable to manage the risks internally and the cost of procuring risk management tools such as options and reserve from the market are likely to be prohibitive.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>As P137 is likely to lead to an over-recovery of costs RCRC will increase.</p> <p>As noted on page 20 of the Second Assessment Consultation Document, single site generators are prevented from access to RCRC. In addition, embedded generators do not have access to RCRC and reduce their supplier's potential access. This poses the potential of additional costs on the embedded generator</p> <p>Other players will view RCRC as a potential cushion against extreme SBP.</p>
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	Credit risk will increase exponentially under P137.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		See answer to Questions 13 and 15
18.	What effect, in your opinion, will P137 have in relation		P137 would impact on all physical players with imbalance risks, however

Q	Question	Response	Rationale
	to Applicable BSC Objective 3(c)?		<p>smaller players will be effected to a greater extent as outlined in questions 13, 15, 16, 18, and 19.</p> <p>This would have a detrimental effect upon objective 3 (c) and lead to even greater concentration of market power in the industry.</p>
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	As stated above this Modification has a detrimental impact on all Applicable BSC Objectives
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	<p>As stated above this Modification has a detrimental impact on all Applicable BSC Objectives.</p> <p>Alcan does not believe that marginal imbalance pricing under any proposed methodology would facilitate the achievement of any BSC Objective.</p>
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES	Embedded generators' disadvantaged access to higher RCRC.
22.	Are there any further comments on P137 that you wish to make?	NO	

P136_137_ASS_010 – Corus Group Plc

Corus responded to the initial consultation and nothing in the latest consultation leads us to change our view that these proposed modifications should be rejected. In fact, the list of reasons against P137/137 in the summary of responses to the initial consultation includes a number of drawbacks which we had not mentioned in our response. As a result we are even more convinced that these modifications should be rejected. Without repeating all the reasons for rejection, our main concerns are:-

1. P78 has not been given chance to run even for a full year. Constant change creates uncertainty and risk which ultimately is paid for by end-consumers. 2. The risk of high and volatile imbalance prices will create an unacceptable level of risk which will have a disproportionate effect on smaller generators and suppliers. Competition in these sectors will be hindered not facilitated. Companies may be bankrupted. 3. High marginal imbalance prices are hardly likely to be cost reflective and will swell the RCRC. 4. Generators may choose to avoid risk by withholding plant. 5. There may be further unintended consequences that arise from the scale of premature change being proposed in P136/137.

In summary, the risks inherent in P136/137 far outweigh the perceived benefits - in fact it is difficult from an end-user perspective to see what the benefits are - and we recommend that the modifications be decisively rejected.

P136_137_ASS_011 – ConocoPhillips UK Ltd**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES	Although we do not believe that marginal pricing is appropriate in this context, we believe that the definition agreed by the PSMG, namely that any volume can set the price, is the most appropriate definition for evaluation purposes.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV	Yes; firm volumes.	The latter. One of the key points in favour of moving to marginal pricing is that it can in certain conditions create better cost signals. Given the inherent volatility that this approach can create, it is important to eliminate unnecessary volatility through the elimination of non-firm volumes.

Q	Question	Response	Rationale
	derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(c)	For the reasons set out in response to 2, it is important that the market sees as firm a price as possible in real time. Market participants cannot react to prices formed after the event.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	No.	No, because the market cannot react to error correction after the event. Prices could be restated for analysis purposes but error correction should not feed through to imbalance cashout prices. There should be strong incentives on NGC to ensure that application of BSAD is as error free as possible.
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?	The application of BSAD needs to be reviewed.	We believe that BSAD should be disaggregated regardless of whether P136 or P137 are implemented. We would like to see the option fees allocated back against the BOA acceptances in P136 because the current BSAD methodology obscures the underlying true cost of balancing.

Q	Question	Response	Rationale
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	Probably not.	This issue should be evaluated further if it is considered that the BSAD method is generating prices that are not reflective of the underlying balancing costs. As we suggested in the response to Q5, the application of BSAD needs to be reviewed.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	Yes	<p>We believe that the current BSAD methodology obscures the underlying true cost of energy balancing through its current treatment of option fees paid to standing reserve generators. We do not support the treatment of option fees being fed through into cash-out prices as the average of the capacity fee paid for those periods in which they were made available, but would rather see allocation to those periods in which generators actually produce.</p> <p>Targeting option fees to the settlement periods where the service is utilised would provide more appropriate signals to incentivise market participants to contact forward and therefore we believe that it is appropriate for P136 and P137 if either is implemented.</p> <p>Enhancing the incentives through building and improving upon the existing methodology of 'average' imbalance prices and better cost targeting of BSAD should incentivise participants to balance in periods where there is an expectation that reserve will be called. This approach should create sharper incentives for parties to trade ahead of gate closure, thus better facilitating BSC Objective (b).</p>
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	More generally the application of BSAD should be reviewed because too many of the underlying judgements are arbitrary.
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD	NO	Given the complexity of identifying non delivered volumes, and our preference for prompt pricing, we believe that introducing rules for the identification of non delivered volumes is adding undue complexity to the solution and will also delay the calculation of a prompt price.

Q	Question	Response	Rationale
	balancing action) to set the marginal Energy Imbalance Price?		
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	We believe that undo tagging will introduce undue complexity into the NIV derivation and do not believe that it should be incorporated as part of the P136 solution.
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?	Detrimental	In theory participants should seek to be in balance, though in practice we suspect they will simply over contract. Over time, if energy imbalance prices are inherently more volatile, it might encourage suppliers to develop more innovative load reduction and teleswitching capability. From a generators perspective, there could be perverse incentives to self balance.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?	Detrimental	Again the theory and practice may diverge. In theory P136 should encourage demand to bid more extensively into the BM if it has load which is price sensitive. In practice though, because of the inherently erratic nature of imbalance prices under the current methodology and the problems that therefore arise from accurately predicting them, then benefit of this change would probably be negligible. Because of the pay as bid approach to paying generators in the BM, we cannot see any reason why generator behaviour would change other than that quantities would be reduced where a generator increased the quantity it may wish to hold to self balance.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred	Detrimental	A marginal price is by definition more cost reflective than an average one – provided the correct energy imbalance costs are being fed through. The inherent complexity of some of the BSAD judgements, however, leads us to question whether this proviso is actually being met. For the time being it may be better, in our view, to focus on aspects of the methodology which are demonstrably flawed, such as then treatment of standing reserve option fees.

Q	Question	Response	Rationale
	in energy balancing the system at those in imbalance?		
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	NO	In practical terms we think the risk of exposure to energy imbalance prices that are mechanistically derived we reinforce incentives to self balance and over contract. If this assumption proves correct, the impact on the short term forward markets could be detrimental and reduce, not increase as the proponent would argue, liquidity.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?	It will increase them.	We believe that should marginal pricing be introduced it will increase the costs incurred by our business which will therefore be reflected in the operating cost of the plant, feeding forward into the wholesale price of the electricity that we generate.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	It will massively increase the risk that we are exposed to should our plant trip whilst delivering an acceptance.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?	Minimal	All things being equal in terms of imbalance quantities it should increase RCRC monies. This of itself is unlikely to impact on participant behaviour.
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current	YES	The change would have the effect of increasing the costs and therefore credit requirements of parties in imbalance.

Q	Question	Response	Rationale
	arrangements?		
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?	Small players will be further disadvantaged.	There will be a differential effect. As with many market changes, integrated and portfolio players will have more operational and commercial options and mechanisms available to them to better manage the increased risk that P136 will create. Whether this is due or undue discriminatory depends on each party's assessment of the associated benefits but we consider them too theoretical, and conclude that the change will disproportionately disadvantage small market players such as ConocoPhillips.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?	It will be detrimental	We believe that it would be a barrier to entry as the risk associated with trading in the market will be higher and therefore new participants will see fewer incentives to join the market. Also encouraging participants to hold additional reserve and potentially self balance will not promote competition.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	We do not believe that the introduction of marginal pricing will better facilitate the applicable BSC objective as it will create a barrier to entry by increasing the risk of participating in the market. Marginal pricing will encourage parties to hold their own reserve therefore reducing the efficiency of the market as a whole. It will also create new risks that cannot be efficiently managed. We conclude that the proposal does not facilitate the BSC objectives.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
23.	Are there any further comments on P136 that you wish to make?	YES	<p>ConocoPhillips believe that the current 'average' energy imbalance price mechanism is overall an efficient and effective approach. Therefore, we do not believe it is appropriate to move the imbalance cash-out methodology to a 'marginal' environment especially taking into consideration the adverse effects highlighted in this response and our response to the initial consultation.</p> <p>We would prefer to see changes to BSAD rather than implementing 'marginal' main imbalance prices,</p>

Q	Question	Response	Rationale
			but within a context of simplifying the overall methodology which is too mechanistic. There are also too many judgements that need to be applied, and NGC should face sharper incentives to apply these correctly.

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	YES	Although we do not believe that marginal pricing is appropriate in this context, we believe that the definition agreed by the PSMG, namely that any volume can set the price, is the most appropriate definition for evaluation purposes.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	Yes; firm volumes.	The latter. One of the key points in favour of moving to marginal pricing if it is to be implemented is that it can in certain conditions create better cost signals. Given the inherent volatility that this approach can create, it is important to eliminate unnecessary volatility through the elimination of non-firm volumes.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why?	(c)	For the reasons set out in response to 2, it is important that the market sees as firm a price as possible in real time. Market participants cannot react to prices formed after the event.

Q	Question	Response	Rationale
	((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	No.	No, because the market cannot react to error correction after the event. Prices could be restated for analysis purposes but error correction should not feed through to imbalance cashout prices. There should be strong incentives on NGC to ensure that application of BSAD is as error free as possible.
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	The application of BSAD needs to be reviewed.	We believe that BSAD should be disaggregated regardless of whether P136 or P137 are implemented. We would like to see the option fees allocated back against the BOA acceptances in P137 because the current BSAD methodology obscures the underlying true cost of balancing.
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	More generally the application of BSAD should be reviewed because too many of the underlying judgements are arbitrary.
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	Given the complexity of identifying non delivered volumes, and our preference for prompt pricing, we believe that introducing rules for the identification of non delivered volumes is adding undue complexity to the solution and will also delay the calculation of a prompt price.
8.	Do you support the principle of	NO	We believe that undo tagging will introduce undue complexity into the NIV derivation and do not

Q	Question	Response	Rationale
	BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?		believe support the introduction of it.
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?	Detrimental	In theory participants should seek to be in balance, though in practice we suspect they will simply over contract. Over time, if energy imbalance prices are inherently more volatile, it might encourage suppliers to develop more innovative load reduction and teleswitching capability. From a generator's perspective, there could be perverse incentives to self balance.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?	It will increase them.	We believe that should marginal pricing be introduced it will increase the costs incurred by our business which will therefore be reflected in the operating cost of the plant, feeding forward into the wholesale price of the electricity that we generate.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?	YES	It will massively increase the risk that we are exposed to should our plant trip whilst delivering an acceptance.
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards		All things being equal in terms of imbalance quantities it should increase RCRC monies. This of itself is unlikely to impact on participant behaviour.

Q	Question	Response	Rationale
	and spot markets, if so why? If not, why not?		
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?	YES	The change would have the effect of increasing the costs and therefore credit requirements of parties in imbalance.
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	It will massively increase the risk that we are exposed to should our plant trip whilst delivering an acceptance.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?	Minimal	All things being equal in terms of imbalance quantities, it should increase RCRC monies. This of itself is unlikely to impact on participant behaviour.
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	The change would have the effect of increasing the costs and therefore credit requirements of parties in imbalance.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player,	Small players will be further disadvantaged	There will be a differential effect. As with many market changes, integrated and portfolio players will have more operational and commercial options and mechanisms available to them to better manage the increased risk that P136 will create. Whether this is due or undue discriminatory depends on each party's assessment of the associated benefits but we consider them too theoretical, and conclude that

Q	Question	Response	Rationale
	single site generator, small Supplier)?	ed.	the change will disproportionately disadvantage small market players such as ConocoPhillips.
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?	It will be detrimental	We believe that it would be a barrier to entry as the risk associated with trading in the market will be higher and therefore new participants will see fewer incentives to join the market. Also encouraging participants to hold additional reserve and potentially self balance will not promote competition.
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	We do not believe that the introduction of marginal pricing will better facilitate the applicable BSC objectives as it will create a barrier to entry by increasing the risk of participating in the market. Marginal pricing will encourage parties to hold their own reserve therefore reducing the efficiency of the market as a whole. It will also create new risks that cannot be efficiently managed. We conclude that the proposal does not facilitate the BSC objectives.
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See question 19.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
22.	Are there any further comments on P137 that you wish to make?	YES	ConocoPhillips believe that the current 'average' energy imbalance price mechanism is overall an efficient and effective approach. Therefore, we do not believe it is appropriate to move the imbalance cash-out methodology to a 'marginal' environment especially taking into consideration the adverse effects highlighted in this response and in our response to the initial consultation.

Q	Question	Response	Rationale
			We would prefer to see changes to BSAD rather than implementing 'marginal' main imbalance prices, but within a context of simplifying the overall methodology which is too mechanistic. There are also too many judgements that need to be applied, and NGC should face sharper incentives to apply these correctly.

P136_137_ASS_012 – Energy Intensive Users Group

EIUG would like to make the following comments in response to the consultation on P136 (Marginal Definition of the 'Main' Energy Imbalance Price and P137 (Revised Calculation of System Buy Price and System Sell Price):

- EIUG does not support the moves to marginal imbalance prices.
- EIUG does not accept that the present methodology, resulting from P78, is deficient.
- EIUG believes the present methodology should be allowed to remain in place unless and until some convincing evidence emerges that a major change is required.
- EIUG hopes that due weight will be given to these comments, and especially to those voiced by energwatch on this matter, which we endorse.

P136 137 ASS 013 – British Gas Trading

P136

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price	No	BGT do not support marginal pricing and as such have not proposed an alternative definition.

Q	Question	Response	Rationale
	would you propose?		
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	<p>BGT are supportive of prompt pricing and believe it is an essential component of any market. Whilst it is not ideal for data items which are non-firm at the time of reporting to be included, BGT believe these estimates of energy volumes should be fairly accurate and should be included to derive the NIV.</p> <p>BGT does note and is worried by the potential implications of setting an erroneous imbalance price based upon a non-firm volume. This could result in a Party being subject to a large imbalance based on an erroneous price. This is a flaw in a marginal methodology the effect of which is severely curtailed by a weighted average methodology.</p>
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(c)	<p>BGT is supportive of option C, freezing the energy imbalance price in real time. BGT favours this option because it is not possible to respond to price amendments after the event i.e. changes from reconciliation runs. The price and the signal that prices sends at the time of publication inform the strategy of the BSC Party at that time.</p> <p>In forming this opinion BGT notes the potential for significant changes to imbalance prices due to the sensitivities of a marginal price cash out regime. Amendments made via reconciliation can significantly change the imbalance price.</p>
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	<p>Allowing for the correction of BSAD in specific circumstances is sensible. The provision should have similar criteria as those associated with Manifest Error. In that the Transmission Company should highlight the submission of an erroneous BSAD submission within tightly defined timescales. If that timescale is missed there should be no retrospective amendments.</p>
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including	Option 1	<p>BGT has a preference for option 1. Disaggregation of BSAD is better than the current baseline as it improves the transparency of actions taken by the system operator. It also aids understanding and provides Parties with the opportunity to challenge the actions of the system operator.</p>

Q	Question	Response	Rationale
	the treatment of option fees)?		<p>BGT favours option 1 because we believe this is an improvement on the BSAD developments introduced for winter 2003/04. BGT were supportive of the BSAD amendments introduced for winter 2003/04 and this option provides further enhancements as it is based on actual rather than historic usage.</p> <p>In terms of the data being made available in the public domain BGT do not see this as an issue. BM data is open and transparent and BGT sees no reason why such openness and transparency should not be associated with the treatment of option fees. As market pricing information sends important signals to users.</p>
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	NO	<p>BGT is supportive of maintaining the BSAD variable in the calculation of energy imbalance prices. BGT believe PGBT's should feed into the imbalance price, as PGBT's are in essence Bid-Offer Acceptances without the dynamics to operate in the BM.</p> <p>BGT is also keen to ensure actions taken by the system operator for energy balancing reasons are factored into the imbalance prices.</p>
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	NO	BGT supports option 1.
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the	NO	BGT note the issue of complexity but is concerned that a non-delivered acceptance could set the energy imbalance price.

Q	Question	Response	Rationale
	marginal Energy Imbalance Price?		
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES	BGT supports the principle of the additional tagging mechanisms. However BGT does have some general concerns about the number of tagging actions that will be undertaken and the complexity that introduces.
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		<p>BGT believe modification proposal P136 will have an adverse effect on Applicable BSC Objective (b). Due to the significant risks associated with marginal prices this may result in parties going long and holding their own reserve. It is inefficient if all Parties hold their own capacity, as an inappropriately high level of reserve is likely to result. Therefore BGT do not believe the modification will better facilitate the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system (Applicable BSC Objective b).</p> <p>Also if parties do hold inefficient levels of capacity that inefficiency will be passed through to end users in the form of higher energy prices.</p> <p>BGT also have concerns that the high imbalance prices may result in Parties self-balancing, which may adversely impact on Applicable BSC Objective (b). At the start of NETA, imbalance prices were particularly volatile and some Parties were self-balancing to avoid exposure to the imbalance prices. BGT concurs with the majority view of the group that marginal pricing will increase the volatility and level of imbalance prices. This may result in Parties choosing to self-balance again to avoid the Imbalance cash out price.</p>
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		<p>It is difficult to foresee what impact P136 will have on Parties behaviour in terms of Bid-Offer prices.</p> <p>However in view of the discussions at modification meetings for P135 BGT believe Bid Offer prices may increase due to the increased risks faced by BSC Parties. As generators attempt to reduce their risk of exposure to non-delivery charges they will strive to be at the margin.</p>

Q	Question	Response	Rationale
			BGT also has concerns that the additional volatility in imbalance prices may provide for gaming opportunities.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>As those Parties participating in the BM are paid as bid then the marginal price cannot be cost reflective.</p> <p>BGT do not support the principle that a marginal energy imbalance price will fairly target the costs of energy balancing at those who are perceived to have caused the problem. A marginal price will consistently over recover the costs incurred by the Transmission Company.</p>
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	<p>BGT do believe there will be an impact but view that impact as negligible. BGT believe that this modification will have some impact on the day ahead market. The signals received from imbalance prices have a link with the day ahead market and may inform trading decisions.</p> <p>BGT do not believe there will be a significant impact upon the forwards market. BGT believe the link between imbalance prices and the forward market to be detached.</p>
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>BGT believe P136 will increase the risks for all physical BSC Parties. This is due to the unmanageable risk that is inherent because of the structure of the market. The gate closure period means that there is a 'dead' period when Parties cannot respond to changing circumstances. If a generator trips during gate closure the generator would then be exposed to a marginal imbalance price with no way of mitigating the effect.</p> <p>Similarly from a supplier perspective the process of notifying contracts against a demand-forecast means there will be errors between the two numbers. Even a good demand forecast will contain errors. BGT believes a move to marginal pricing will compound those errors and significantly increase the risks faced by suppliers.</p> <p>Whilst BGT note the possibility for cash out prices to be negative, BGT believe the increased risk</p>

Q	Question	Response	Rationale
			will encourage suppliers to go long. Suppliers will be risk averse to going short and this will lead to Parties holding inefficient contract length. The cost of which along with the increased risk will need to be borne by the end user. If supplier's costs increase because of marginal pricing then customers are also likely to be adversely affected.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	As above
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>On the basis that imbalance prices are likely to increase under a marginal regime there will be a significant increase in the amount of RCRC. This surplus will be re-distributed in an arbitrary manner based on a Parties metered output. This re-allocation will create inequities. For example if a single site generator trips they will not receive any of the surplus via the RCRC mechanism. Whilst a supplier who was short will still receive a share of the surplus all be it based on its diminished metered output. Whilst this defect is true of the existing baseline the effect is likely to be exacerbated due to the increased RCRC cash flow.</p> <p>Despite this inequitable situation BGT do not believe the increase in RCRC will have any effect on the behaviour of BSC Parties.</p>
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	BGT is very concerned about the impact this modification may have on the credit cover arrangements. The current guidelines are based on a CAP value until the II run feeds in correct imbalance prices. With imbalance prices likely to increase under a marginal methodology this could mean that Parties energy indebtedness is significantly understated. BGT note this defect is present within the current baseline but the effect is likely to be magnified by this modification. This will represent an increased risk for all BSC signatories.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for		<p>BGT believes this modification will have a significant effect on all types of Party.</p> <p>Marginal pricing is likely to have an adverse impact on unpredictable generation such as wind.</p>

Q	Question	Response	Rationale
	example, large portfolio player, single site generator, small Supplier)?		<p>Introducing a pricing regime that adversely effects renewable generation appears to be directly contrary to government policy on renewables.</p> <p>The cost of entering the market is likely to be increased for all new entrants. Parties on accession to the BSC must post an appropriate level of credit cover. On the assumption imbalance prices are increased by a marginal methodology parties will be required to lodge larger amounts of credit cover. This will especially impact on small players as it may lessen their ability to provide the required level of credit cover.</p> <p>Vertically integrated players will also be impacted, as the spread between the system buy and system sell cash out prices will be increased. In the scenario where a vertically integrated player who balances its production and consumption accounts has a station trip whilst over forecasting their demand requirements. In this instance the Party would be short in their production account and long on their consumption account. This will have caused no additional system stress. Due to this modification it could result in a significantly higher cash out liability due to the increased spread between the system buy and sell price.</p> <p>Marginal pricing will also increase the risks faced by existing BSC Parties. This modification may be ruinous for BSC Parties due to the increased level of risks.</p>
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		<p>BGT believes this modification will be to the detriment of Applicable BSC Objective (C), as it will have an adverse effect on competition in the generation and supply of electricity. Whilst BGT note the assertion of the proposer that marginal pricing does not necessarily mean that imbalance prices will be £99,999 MWh, imbalance prices at this level could occur under a marginal regime. This introduces an unmanageable risk for BSC Parties and it could also be ruinous.</p> <p>BGT also believes that the implementation of marginal pricing may result in a barrier to entry. With potential new entrants being 'scared' off by the risks associated with entry to the market.</p>

Q	Question	Response	Rationale
			Marginal pricing may also have a detrimental effect on competition amongst the existing BSC Parties.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	BGT do not believe this modification will better facilitate any of the applicable BSC Objectives. The rationale has been stated in question 11 and 20.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
23.	Are there any further comments on P136 that you wish to make?	NO	

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	No	BGT do not support marginal pricing and as such have not proposed an alternative definition.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in	YES	BGT are supportive of prompt pricing and believe it is an essential component of any market. Whilst it is not ideal for data items which are non-firm at the time of reporting to be included, BGT believe these estimates of energy volumes should be fairly accurate and should be included

Q	Question	Response	Rationale
	real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		<p>to derive the NIV.</p> <p>BGT does note and is worried by the potential implications of setting an erroneous imbalance price based upon a non-firm volume. This could result in a Party being subject to a large imbalance based on an erroneous price. This is a flaw in a marginal methodology the effect of which is severely curtailed by a weighted average methodology.</p>
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(c)	<p>BGT is supportive of option C, freezing the energy imbalance price in real time. BGT favours this option because it is not possible to respond to price amendments after the event i.e. reconciliation runs. The price and the signal that prices sends at the time of publication inform the strategy of the BSC Party at that time.</p> <p>In forming this opinion BGT notes the potential for significant changes to imbalance prices due to the sensitivities of a marginal price cash out regime. Amendments made via reconciliation can significantly change the imbalance price.</p>
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	<p>Allowing for the correction of BSAD in specific circumstances is sensible. The provision should have similar criteria as those associated with Manifest Error. In that the Transmission Company should highlight the submission of an erroneous BSAD submission within tightly defined timescales. If that timescale is missed there should be no retrospective amendments.</p>
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	Option 1	<p>BGT has a preference for option 1. Disaggregation of BSAD is better than the current baseline as it improves the transparency of actions taken by the system operator. It also aids understanding and provides Parties with the opportunity to challenge the actions of the system operator.</p> <p>BGT favours option 1 because we believe this is an improvement on the BSAD developments introduced for winter 2003/04. BGT were supportive of the BSAD amendments introduced for winter 2003/04 and this option provides further enhancements as it is based on actual rather</p>

Q	Question	Response	Rationale
			<p>than historic usage.</p> <p>In terms of the data being made available in the public domain BGT do not see this as an issue. BM data is open and transparent and BGT sees no reason why such openness and transparency should not be associated with the treatment of option fees. As market pricing information sends important signals to users.</p>
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	BGT note the issue of complexity but is concerned that a non-delivered acceptance could set the energy imbalance price.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES	BGT supports the principle of the additional tagging mechanisms. However BGT does have some general concerns about the number of tagging actions that will be undertaken and the complexity that introduces.
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		<p>BGT believe modification proposal P137 will have an adverse effect on Applicable BSC Objective (b). Due to the significant risks associated with marginal prices this may result in parties going long and holding their own reserve. It is inefficient if all Parties hold their own capacity, as an inappropriately high level of reserve is likely to result. Therefore BGT do not believe the modification will better facilitate the efficient, economic and co-ordinated operation by the licensee of the licensee's transmission system (Applicable BSC Objective b).</p> <p>Also if parties do hold inefficient levels of capacity that inefficiency will be passed through to end users in the form of higher energy prices.</p>

Q	Question	Response	Rationale
			<p>BGT also have concerns that the high imbalance prices may result in Parties self-balancing, which may adversely impact on Applicable BSC Objective (b). At the start of NETA, imbalance prices were particularly volatile and some Parties were self-balancing to avoid exposure to the imbalance prices. BGT concurs with the majority view of the group that marginal pricing will increase the volatility and level of imbalance prices. This may result in Parties choosing to self-balance again to avoid the Imbalance cash out price.</p>
10.	<p>What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?</p>		<p>It is difficult to foresee what impact P137 will have on Parties behaviour in terms of Bid-Offer prices.</p> <p>However in view of the discussions at modification meetings for P135 BGT believe Bid Offer prices may increase due to the increased risks faced by BSC Parties. As generators attempt to reduce their risk of exposure to non-delivery charges they will strive to be at the margin.</p> <p>BGT also has concerns that the additional volatility in imbalance prices may provide for gaming opportunities.</p>
11.	<p>What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?</p>		<p>As those Parties participating in the BM are paid as bid then the marginal price cannot be cost reflective.</p> <p>BGT do not support the principle that a marginal energy imbalance price will fairly target the costs of energy balancing at those who are perceived to have caused the problem. A marginal price will consistently over recover the costs incurred by the Transmission Company</p>
12.	<p>In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why</p>		<p>BGT do believe there will be an impact but view that impact as negligible. BGT believe that this modification will have some impact on the day ahead market. The signals received from imbalance prices have a link with the day ahead market and may inform trading decisions.</p>

Q	Question	Response	Rationale
	not?		BGT do not believe there will be a significant impact upon the forwards market. BGT believe the link between imbalance prices and the forward market to be detached.
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>BGT believe P137 will increase the risks for all physical BSC Parties. This is due to the unmanageable risk that is inherent because of the structure of the market. The gate closure period means that there is a 'dead' period when Parties cannot respond to changing circumstances. If a generator trips during gate closure the generator would then be exposed to a marginal imbalance price with no way of mitigating the effect.</p> <p>Similarly from a supplier perspective the process of notifying contracts against a demand-forecast means there will be errors between the two numbers. Even a good demand forecast will contain errors. BGT believes a move to marginal pricing will compound those errors and significantly increase the risks faced by suppliers.</p> <p>Whilst BGT note the possibility for cash out prices to be negative, BGT believe the increased risk will encourage suppliers to go long. Suppliers will be risk averse to going short and this will lead to Parties holding inefficient contract length. The cost of which along with the increased risk will need to be borne by the end user. If supplier's costs increase because of marginal pricing then customers are also likely to be adversely affected.</p>
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	As above
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		On the basis that imbalance prices are likely to increase under a marginal regime there will be a significant increase in the amount of RCRC. This surplus will be re-distributed in an arbitrary manner based on a Parties metered output. This re-allocation will create inequities. For example if a single site generator trips they will not receive any of the surplus via the RCRC mechanism. Whilst a supplier who was short will still receive a share of the surplus all be it

Q	Question	Response	Rationale
			<p>based on its diminished metered output. Whilst this defect is true of the existing baseline the effect is likely to be exacerbated due to the increased RCRC cash flow.</p> <p>Despite this inequitable situation BGT do not believe the increase in RCRC will have any effect on the behaviour of BSC Parties.</p>
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	<p>BGT is very concerned about the impact this modification may have on the credit cover arrangements. The current guidelines are based on a CAP value until the II run feeds in correct imbalance prices. With imbalance prices likely to increase under a marginal methodology this could mean that Parties energy indebtedness is significantly understated. BGT note this defect is present within the current baseline the effect is likely to be magnified by this modification. This will represent an increased risk for all BSC signatories.</p>
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		<p>BGT believes this modification will have a significant effect on all types of Party.</p> <p>Marginal pricing is likely to have an adverse impact on unpredictable generation such as wind. Introducing a pricing regime that adversely effects renewable generation appears to be directly contrary to government policy on renewables.</p> <p>The cost of entering the market is likely to be increased for all new entrants. Parties on accession to the BSC must post an appropriate level of credit cover. On the assumption imbalance prices are increased by a marginal methodology parties will be required to lodge larger amounts of credit cover. This will especially impact on small players as it may lessen their ability to provide the required level of credit cover.</p> <p>Vertically integrated players will also be impacted, as the spread between the system buy and system sell cash out prices will be increased. In the scenario where a vertically integrated player who balances its production and consumption accounts has a station trip whilst over forecasting their demand requirements. In this instance the Party would be short in their production account and long on their consumption account. This will have caused no additional system</p>

Q	Question	Response	Rationale
			<p>stress. Due to this modification it could result in a significantly higher cash out liability due to the increased spread between the system buy and sell price.</p> <p>Marginal pricing will also increase the risks faced by existing BSC Parties. This modification may be ruinous for BSC Parties due to the increased level of risks.</p>
18.	<p>What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?</p>		<p>BGT believes this modification will be to the detriment of Applicable BSC Objective (C), as it will have an adverse effect on competition in the generation and supply of electricity. Whilst BGT note the assertion of the proposer that marginal pricing does not necessarily mean that imbalance prices will be £99,999 MWh, imbalance prices at this level could occur under a marginal regime. This introduces an unmanageable risk for BSC Parties and it could also be ruinous.</p> <p>BGT also believes that the implementation of marginal pricing may result in a barrier to entry. With potential new entrants being 'scared' off by the risks associated with entry to the market.</p> <p>Marginal pricing may also have a detrimental effect on competition amongst the existing BSC Parties.</p>
19.	<p>Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)</p>	No	<p>BGT do not believe this modification will better facilitate any of the applicable BSC Objectives. The rationale has been stated in questions 9 and 18.</p>
20.	<p>Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state</p>	NO	

Q	Question	Response	Rationale
	which objective(s)		
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
22.	Are there any further comments on P137 that you wish to make?	NO	

P136_137_ASS_014 – Powergen**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	Yes	The definition of marginal price is consistent with the modification proposal.
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer		All relevant volumes should be included if they can be accommodated in real time. If any data cannot be acquired within this time it will risk setting the prices at an inappropriate level. There are risks associated with either approach especially if the price is going to be corrected later when the data becomes firm. A marginal price means that small changes in volume can alter the price significantly compared with a weighted average price. This makes this issue far more significant under a marginal price than it is under a weighted average price.

Q	Question	Response	Rationale
	to have the NIV derived in real time with only firm volumes?		
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	<p>No particular preference.</p> <p>This is a trade off between freezing the data so that parties can achieve more certainty about their and others positions in prompt timescales, and accuracy so that imbalance prices are set taking into account the real position of the market. Freezing the data runs the risk that someone could be penalised by being exposed to an extreme price which would have been less so had the price been calculated using more accurate data. These risks are more significant under a marginal price as prices will move more dramatically in response to relatively small changes in volume.</p> <p>The risk of price uncertainty and inaccuracy appears to be a strong reason not to implement the modification.</p>
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	Yes	However, there is always a concern that under a marginal price a Party could be penalised by an extreme price which would have been less so had the 'correct' BSAD data been used.
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		We would support the disaggregation of BSAD data if only to create greater transparency about the trades NGC undertakes. It may be more realistic to allocate option fees to the periods when those options are called.
6.	Do you support the proposed approach (being considered	No	It is not clear that all pre gate closure trades are taken for system purposes. Therefore, it is uncertain what the rationale is for excluding them from imbalance prices.

Q	Question	Response	Rationale
	as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?		
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	Yes	Please see 5 above.
8.	Do you wish to propose a different treatment of BSAD for P136?	No	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	Yes	As a general principle non-delivered BOAs should not be able to set a marginal price. However, technical considerations probably mean that it will too difficult to remove them. This appears to be another problem with the modification.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	No	<p>BMU undo tagging will not give the net effect of offsetting trades on the same BMU in terms of price. It will give the net effect in terms of volume, but at an overstated price. This is equivalent, but opposite in effect, to the proposer’s concern about NIV tagging representing the net effect of offsetting trades on the same BMU in terms of volume, but understating the price.</p> <p>For example, the worked example in figure 4 of the overview of the modifications shows a</p>

Q	Question	Response	Rationale
			<p>situation where NGC has accepted Offers of £110, £100, £30 and £10 on the same BMU and has entered into an offsetting PGBT of £100/MWh for 100MWh. If we assume that all the offers are for 50MWh each the net effect of the proposed BMU undo tagging will be to let offers of an average price $((£110 + £100) \times 50\text{MWh})/100 \text{ MWh} = £105/\text{MWh}$ into the NIV stack.</p> <p>However, the net effect of these trades is in reality a net volume of offers at $((£110 + £100 + £30 + £10) \times 50\text{MWh}) - (£100 \times 100\text{MWh})/100 \text{ MWh} = £25/\text{MWh}$.</p> <p>If the raw data was left to enter the stack and assuming NIV tagging would take out the more expensive offers of £110 and £100, then offers would be left in the stack of an average price of $((£30 + £10) \times 50\text{MWh})/100\text{MWh} = £20/\text{MWh}$. This would understate the net effect as the proposer asserts.</p>
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		<p>It is likely that the potential exposure to more extreme SBPs will push parties to go long. This should ensure that enough capacity is on the system, but the question is whether it will do so efficiently.</p> <p>Conversely, the potential for some parties, particularly small generators to be put out of business by exposure to extreme imbalance prices may have short term implications on security of supply if capacity is not made available to the market as a result of insolvency.</p>
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		It is difficult to see what change in behaviour, if any, will result from this.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main)		In a mechanism where bids and offers are settled at the price at which they were made rather than the marginal price, then to charge the relating imbalances at the marginal price does not appear cost reflective. If NGC has incurred a certain amount of costs to balance the system then

Q	Question	Response	Rationale
	Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>it is difficult to see how recovering more than this through imbalance prices can be seen as cost reflective.</p> <p>However, the real issue is whether the imbalance prices are providing a strong enough incentive for participants to contract in such a way to ensure an efficient level of security is provided. Therefore, total cost reflectivity is not what you are trying to achieve in these circumstances.</p> <p>That said, there is a potential that marginal prices could overstate this signal so that too much security is held which would be inefficient.</p>
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	Yes	<p>In theory it should do so as the market goes longer to avoid more volatile imbalance prices. However, prior to P78 being implemented the market was long due to volatile imbalance prices and forward prices were low, so it does not necessarily follow.</p>
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>If parties are exposed to more risk they will generally seek a higher return. This could mean higher prices for customers.</p>
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	Yes	<p>There are very few if any products available to insure against imbalances caused post gate closure. This is a particular risk faced by generators at present in relation to tripping off the system.</p> <p>Marginal pricing will increase the size of this risk.</p>
17.	What effect, in your opinion, will P136 have on the RCRC,		<p>RCRC should be expected to increase to high levels when marginal prices significantly differ from the weighted average price. This will have the effect of insulating certain parties from the full</p>

Q	Question	Response	Rationale
	if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>effects of marginal prices as a significant proportion will be fed back to them thorough RCRC.</p> <p>Single plant generators will be more exposed to the risk of marginal prices as a trip could leave them with no metered volumes over which RCRC could be allocated.</p>
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	Yes	<p>If imbalance prices are to be more extreme then this will result in some parties paying much higher quantities of imbalance charges at certain times, so that levels of indebtedness could become a lot more volatile.</p> <p>This could further expose the inability of the credit cover arrangements to accurately estimate a party's indebtedness at certain times.</p>
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Please see answer to 17 above.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		If P136 results in greater unmanageable risk for some parties then this is likely to lead to a decrease in competition in the market.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	<p>The proposal has the potential to create greater unmanageable risk for some parties which may be detrimental to competition.</p> <p>BMU undo tagging does not appear to be creating the correct net position in respect of offsetting BMU trades, and the addition of two more methods of tagging will increase complexity of the arrangements which will be detrimental to objective d).</p>
22.	Does P136 raise any issues	No	

Q	Question	Response	Rationale
	that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale		
23.	Are there any further comments on P136 that you wish to make?	No	

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	Yes	The definition of marginal price is consistent with the modification proposal.
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm		All relevant volumes should be included if they can be accommodated in real time. If any data cannot be acquired within this time it will risk setting the prices at an inappropriate level. There are risks associated with either approach especially if the price is going to be corrected later when the data becomes firm. A marginal price means that small changes in volume can alter the price significantly compared with a weighted average price. This makes this issue far more significant under a marginal price than it is under a weighted average price.

Q	Question	Response	Rationale
	volumes?		
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	<p>No particular preference.</p> <p>This is a trade off between freezing the data so that parties can achieve more certainty about their and others positions in prompt timescales, and accuracy so that imbalance prices are set taking into account the real position of the market. Freezing the data runs the risk that someone could be penalised by being exposed to an extreme price which would have been less so had the price been calculated using more accurate data. These risks are more significant under a marginal price as prices will move more dramatically in response to relatively small changes in volume.</p> <p>The risk of price uncertainty and inaccuracy appears to be a strong reason not to implement the modification.</p>
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	Yes	However, there is always a concern that under a marginal price a Party could be penalised by an extreme price which would have been less so had the 'correct' BSAD data been used.
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	Yes	This should ensure more realistic representation of the cost of reserve. However care will need to be taken to ensure that they are allocated as accurately as possible so as not to introduce any additional distortions.
6.	Do you wish to propose a different treatment of BSAD for P137?	No	
7.	In your opinion, and given	Yes	As a general principle non-delivered BOAs should not be able to set a marginal price. However,

Q	Question	Response	Rationale
	the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?		technical considerations probably mean that it will too difficult to remove them. This appears to be another problem with the modification
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	No	<p>BMU undo tagging will not give the net effect of offsetting trades on the same BMU in terms of price. It will give the net effect in terms of volume, but at an overstated price. This is equivalent, but opposite in effect, to the proposer’s concern about NIV tagging representing the net effect of offsetting trades on the same BMU in terms of volume, but understating the price.</p> <p>For example, the worked example in figure 4 of the overview of the modifications shows a situation where NGC has accepted Offers of £110, £100, £30 and £10 on the same BMU and has entered into an offsetting PGBT of £100/MWh for 100MWh. If we assume that all the offers are for 50MWh each the net effect of the proposed BMU undo tagging will be to let offers of an average price $((£110 + £100) \times 50\text{MWh})/100 \text{ MWh} = £105/\text{MWh}$ into the NIV stack.</p> <p>However, the net effect of these trades is in reality a net volume of offers at $((£110 + £100 + £30 + £10) \times 50\text{MWh}) - (£100 \times 100\text{MWh})/100 \text{ MWh} = £25/\text{MWh}$.</p> <p>If the raw data was left to enter the stack and assuming NIV tagging would take out the more expensive offers of £110 and £100, then offers would be left in the stack of an average price of $((£30 + £10) \times 50\text{MWh})/100\text{MWh} = £20/\text{MWh}$. This would understate the net effect as the proposer asserts.</p>
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b),		It is likely that the potential exposure to more extreme SBPs will push parties to go long. This should ensure that enough capacity is on the system, but the question is whether it will do so efficiently.

Q	Question	Response	Rationale
	particularly with respect to incentives to balance and any consequential effect on security of supply?		Conversely, the potential for some parties, particularly small generators to be put out of business by exposure to extreme imbalance prices may have short term implications on security of supply if capacity is not made available to the market as a result of insolvency.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		It is difficult to see what change in behaviour, if any, will result from this.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>In a mechanism where bids and offers are settled at the price at which they were made rather than the marginal price, then to charge the relating imbalances at the marginal price does not appear cost reflective. If NGC has incurred a certain amount of costs to balance the system then it is difficult to see how recovering more than this through imbalance prices can be seen as cost reflective.</p> <p>However, the real issue is whether the imbalance prices are providing a strong enough incentive for participants to contract in such a way to ensure an efficient level of security is provided. Therefore, total cost reflectivity is not what you are trying to achieve in these circumstances.</p> <p>That said, there is a potential that marginal prices could overstate this signal so that too much security is held which would be inefficient.</p>
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	Yes	In theory it should do so as the market goes longer to avoid more volatile imbalance prices. However, prior to P78 being implemented the market was long due to volatile imbalance prices and forward prices were low, so it does not necessarily follow.
13.	What effect, in your opinion, will P137 have on the		If parties are exposed to more risk they will generally seek a higher return. This could mean higher prices for customers.

Q	Question	Response	Rationale
	incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	Yes	<p>There are very few if any products available to insure against imbalances caused post gate closure. This is a particular risk faced by generators at present in relation to tripping off the system.</p> <p>Marginal pricing will increase the size of this risk.</p>
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>RCRC should be expected to increase to high levels when marginal prices significantly differ from the weighted average price. This will have the effect of insulating certain parties from the full effects of marginal prices as a significant proportion will be fed back to them thorough RCRC.</p> <p>Single plant generators will be more exposed to the risk of marginal prices as a trip could leave them with no metered volumes over which RCRC could be allocated.</p>
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	Yes	<p>If imbalance prices are to be more extreme then this will result in some parties paying much higher quantities of imbalance charges at certain times, so that levels of indebtedness could become a lot more volatile.</p> <p>This could further expose the inability of the credit cover arrangements to accurately estimate a party's indebtedness at certain times.</p>
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Please see the answer to 15 above.

Q	Question	Response	Rationale
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		If P136 results in greater unmanageable risk for some parties then this is likely to lead to a decrease in competition in the market.
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	The proposal has the potential to create greater unmanageable risk for some parties which may be detrimental to competition. BMU undo tagging does not appear to be creating the correct net position in respect of offsetting BMU trades, and the addition of two more methods of tagging will increase complexity of the arrangements which will be detrimental to objective d).
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	No	Please see the answer to 19 above.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	No	
22.	Are there any further comments on P137 that you wish to make?	No	

P136_137_ASS_015 – EdF Energy**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?		<p>We do not agree with the principle of marginal pricing. We have no specific criticisms of the mechanism specified within P136, rather, our criticism is of the concept and its likely effects.</p> <p>However, whilst recognising the general undesirability of marginal pricing, we feel that, if passed, its flaws could be at least slightly ameliorated if the price was calculated from the most-extremely-priced (dearest offers, or cheapest bids, as appropriate) 90 MWh-worth of the main stack. This slightly reduces the extreme sensitivity of marginal pricing and its vulnerability to both gaming and to inaccurate discrimination of system- and energy-related trades.</p>
2.	Would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		<p>There is a trade-off between the use of actual data in the NIV derivation (as it becomes known over time), and the stability of the Energy Imbalance Price. We believe it may be better to have a less 'accurate' NIV, but a more stable Energy Imbalance Price, particularly as marginal cashout prices are so ultra-sensitive, so that late non-firm data derived from say frequency response actions could radically affect SBP ex-post – this would have a destabilising and risk-enhancing effect and seems inherently undesirable.</p> <p>We would, therefore, prefer that NIV be derived only from firm volumes</p>
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation	(c)	EDF Energy has always believed that stability of cashout prices is important. The sensitivity of marginal cashout prices to the input data and their likely extreme volatility make this principle still more important. We would therefore prefer (c) , recognising that this would prevent small (or even, rarely, large) late changes in TLFs coming through that could, potentially, have altered the marginal BOA and hence had a very major ex-post effect on SBP (or SSP).

Q	Question	Response	Rationale
	document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	See rationale above – with an ultra-sensitive marginal cashout price mechanism, allowing ex-post changes to the data affecting cashout prices is undesirable. However, if cashout prices are themselves frozen as in (c) in question 3 above, then there is some merit for transparency's sake in having accurate BSAD data, as long as it is legally very clear that parties with perhaps a large notification error adversely affected by a high cashout price that would have been ameliorated had the new BSAD data been used, will not be able to have legal recourse on the basis of "inaccurate" calculations.
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		<p>We believe that the use of an "effective price" which includes both the "utilisation price" of a BM Unit (for example its offer price) and an estimate of the underlying contribution from the (currently-ignored) "option price" would be more cost-reflective than the current BSAD Price Adjusters.</p> <p>We believe that a disaggregated approach to Energy BSAD would be more appropriate than the present arrangements, i.e. net aggregated approach, as it would entail greater transparency. We would also like to see BM Unit details for each of the Energy BSAD trades</p>
6.	Do you support the proposed approach (being considered as a		No, this does not seem accurate as BSAD actions often have the same effect as BOAs but on a different timescale. This alternative approach would also, regrettably, remove some of the helpful pressure for more transparency of these (BSAD) data.

Q	Question	Response	Rationale
	potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?		
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES	<p>The repeated references to BSAD in this assessment consultation, whilst a separate BSAD consultation takes places, illustrates the clumsiness of this parallel dual governance. However, we do support the concept of "Option Price" whereby this price is added to the "utilisation price" to derive an "effective price". This would be preferred to the current Price Adjusters BPA and SPA.</p> <p>We would also like to comment that the short timescales for most BSAD responses tend to exacerbate the difficulties of having BSAD governed outside the BSC.</p>
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	<i>(complete for certain following AEP seminar)</i>
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	This ensures/establishes the stability of cashout prices, so that they do not change as time passes.

Q	Question	Response	Rationale
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	<p>There is an implicit assumption that “undo’s” on a BM unit cannot be related to the resolution of energy imbalances. We disagree; certainly it is not clear that these are constraint-related, i.e. that they should be tagged.</p> <p>Therefore, we do not support the principle of BM Unit Undo tagging.</p> <p>Regarding offsetting tagging, we do not agree with the assertion by the proposer of P137 that BSAD trades pre Gate Closure cannot ever have been taken for system purposes. We see no reason to exclude them from the stacks used for the regular, presently-existent NIV-tagging process.</p>
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), “The efficient, economic and co-ordinated operation by the Transmission Company of the Transmission System”, particularly with respect to incentives to balance and any consequential effect on security of supply?		<p>We consider that P136 will not better facilitate 3 (b). It will place an unmanageable risk on Parties.</p> <p>Regarding incentives to balance :</p> <p>Modification P136, if passed, could give a very strong incentive for Parties to lengthen their positions at Gate Closure over many Settlement Periods. This may lead to increased costs through inefficient over-contracting. We realise that a marginal SSP in a long system is more extreme than existing SSPs but the magnitude of the effect on SSP when long would be far less than the effect on SBP when the system is short, so the asymmetric incentive (to go long, out of fear of high SBP) would be much enhanced by P136.</p> <p>However, at times of system stress there are different considerations for generators. Generators may be very wary, at such times, of high marginal imbalance cashout prices. This may lead them to not forward-contract at these particular times, or to not contract at anything like full capability, for fear of breaking down and being exposed to marginal imbalance cashout prices. This effect on generators’ behaviour at times of peak demand is not desirable and has adverse consequences for security of supply.</p> <p>We believe that it is cheaper and more efficient for reserve (of the precise required response characteristics) to be contracted-for centrally, by NGT, than by suppliers all going long.</p>

Q	Question	Response	Rationale
12.	What effect, in your opinion, will P136 have on Parties' behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		<p>The signals provided by existing Energy Imbalance Prices seem to ensure – subject to experience this winter with the new formulation - that Parties in a position of imbalance have a reasonable incentive to trade out their exposure in advance of Gate Closure.</p> <p>These existing price signals encourage generators that have spare capacity to make it available either in the short-term forwards markets or to the SO via the Balancing Mechanism. They also encourage suppliers to contract adequately or generously. This contracting in turn facilitates the security of electricity supplies as generators then operate to contract.</p> <p>Marginal Energy Imbalance Prices could potentially be distortionary as they could be set based on a very small volume of energy accepted by the SO - or alternatively based on a System Balancing action.</p> <p>A marginal cash-out regime would certainly increase the risk of “gaming”.</p> <p>Disproportionately large amounts of cash could be moved around at times, particularly at times of high marginal SBP, through the RCRC mechanism. We note the potentially-discriminatory effect that a single site generator that fails at a time of very high marginal cashout SBP price will not receive any compensating RCRC income from the penalties levied on other short parties at such a time, whereas a portfolio generator, with or without a supply business, would receive such offsetting income.</p> <p>Modification P136, if passed, could give a very strong incentive for Parties to lengthen their positions at Gate Closure over many Settlement Periods. This may lead to increased costs through inefficient over-contracting.</p> <p>However, at times of system stress there are different considerations for generators. Generators may be very wary, at such times, of high marginal imbalance cashout prices. This may lead them to not forward-contract at these particular times, or to not contract at anything like full capability, for fear of breaking down and being</p>

Q	Question	Response	Rationale
			exposed to marginal imbalance cashout prices. This effect on generators' behaviour at times of peak demand is not desirable and has adverse consequences for security of supply.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		We believe that marginal imbalance cashout pricing would go very much beyond cost reflectivity. We take the view that the current, and similar, approaches, where at least the "main" price is calculated on an average-cost approach, seems to best fit with a pragmatic interpretation of cost-reflectivity. A marginal approach where a single, shallow (i.e. small volume) acceptance that may have been subject to "gaming" or may have been accepted for system-related reasons does not seem to accord well with even the most academic interpretation of "cost-reflectivity". It would seem to risk at times imposing an arbitrary penalty on those who are out of balance, rather than "targetting costs" at them.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	The volatility and manipulability of cashout prices under a marginal approach is likely to feed back into increased uncertainty and volatility in the forwards and, especially, spot markets. This could damage liquidity there by widening bid-offer spreads. The large increase in operational risks would also be rather likely to make our sector somewhat less attractive, all other things being equal, to new entrants, damaging forward market liquidity and perhaps even damaging security of supply in the longer run.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the		We believe that P136 if passed would impose unmanageable risks on parties. Disproportionately large amounts of cash could be moved around at times, particularly at times of high marginal SBP, through the RCRC mechanism. We note the potentially-discriminatory effect that a single site generator that fails at a time of very high marginal cashout SBP price will not receive any compensating RCRC income from the penalties levied on other short parties at such a time, whereas a portfolio generator, with or without a supply business, would receive such offsetting income.

Q	Question	Response	Rationale
	costs passed back to consumers?		
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	We believe that P136 if passed would impose unmanageable risks on parties, particularly at times of system stress, of gaming, or of “pollution” of the main BOA stack due to inaccurate and incomplete targetting of system-related BOAs in the tagging/estimation process. In other words, marginal pricing would greatly sensitise imbalance prices to the nature of the estimated-identification (tagging) of system balancing actions. Inaccurate tagging would have relatively little effect on the main price at present, but if P136 were passed it could potentially greatly distort the main Energy Imbalance Price.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>Disproportionately large amounts of cash could be moved around at times, particularly at times of high marginal SBP, through the RCRC mechanism. We note the potentially-discriminatory effect that a single site generator that fails at a time of very high marginal cashout SBP price will not receive any compensating RCRC income from the penalties levied on other short parties at such a time, whereas a portfolio generator, with or without a supply business, would receive such offsetting income.</p> <p>Modification P136, if passed, could give a very strong incentive for Parties to lengthen their positions at Gate Closure over many Settlement Periods. This may lead to increased costs through inefficient over-contracting.</p> <p>However, at times of system stress there are different considerations for generators. Generators may be very wary, at such times, of high marginal imbalance cashout prices. This may lead them to not forward-contract at these particular times, or to not contract at anything like full capability, for fear of breaking down and being exposed to marginal imbalance cashout prices. This effect on generators' behaviour at times of peak demand is not desirable and has adverse consequences for security of supply.</p>
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	The BSC Panel have just reduced the credit assessment price from £24 to £18/MWh due to the perceived reduction in SBP, for which CAP is a long-term proxy, since 11 th March 2003. Clearly if P136 were passed the CAP would need both increasing and temporally-profiling such that CAP would need to be very high at times of likely peaks in marginal SBP, to ensure proper protection to participants. However, this would be likely to greatly increase the size of cash deposits or, more likely, letters of credit required from some parties. Letters of

Q	Question	Response	Rationale
			credit are considerably more expensive for some classes of participant so there would be an indirect discriminatory effect.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		See our answers to questions 12,15, 17, and 18 which fully cover this question.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c), "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity"?		We do not believe that P136 will better facilitate 3 (c). Rather, we think that it will deter new entrants as well as increasing operational risks to existing players, to the clear detriment of competition.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the	NO	See our answers to questions 11 and 20.

Q	Question	Response	Rationale
	Applicable BSC Objectives?		
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	NO	
23.	Are there any further comments on P136 that you wish to make?	NO	We believe that modification P78 needs to be given time to function over the winter before stock is taken of any further reforms that may be beneficial. There is benefit in some stability even if the present is not perfect.

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?		<p>We do not agree with the principle of marginal pricing. We have no specific criticisms of the mechanism specified within P137, rather our criticism is of the concept and its likely effects.</p> <p>However, whilst recognising the general undesirability of marginal pricing, we feel that, if passed, its flaws could be at least slightly ameliorated if the price was calculated from the most-extremely-priced (dearest offers, or cheapest bids, as appropriate) 90 MWh-worth of the main stack. This slightly reduces the extreme sensitivity of marginal pricing and its vulnerability to both gaming and to inaccurate discrimination of system- and energy-related trades.</p>
2.	As covered by		There is a trade-off between the use of actual data in the NIV derivation (as it becomes known over time), and the

Q	Question	Response	Rationale
	bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		stability of the Energy Imbalance Price. We believe it may be better to have a less 'accurate' NIV, but a more stable Energy Imbalance Price, particularly as marginal cashout prices are so ultra-sensitive, so that late non-firm data derived from say frequency response actions could radically affect SBP ex-post – this would have a destabilising and risk-enhancing effect and seems inherently undesirable.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price	(c)	EDF Energy has always believed that stability of cashout prices is important. The sensitivity of marginal cashout prices to the input data and their likely extreme volatility make this principle still more important. We would therefore prefer (c) , recognising that this would prevent small (or even, rarely, large) late changes in TLFs coming through that could, potentially, have altered the marginal BOA and hence had a very major ex-post effect on SBP (or SSP).

Q	Question	Response	Rationale
	over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)		
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	See rationale above – with an ultra-sensitive marginal cashout price mechanism, allowing ex-post changes to the data affecting cashout prices is undesirable. However, if cashout prices are themselves frozen as in (c) in question 3 above, then there is some merit for transparency’s sake in having accurate BSAD data, as long as it is legally very clear that parties with perhaps a large notification error adversely affected by a high cashout price that would have been ameliorated had the new BSAD data been used, will not be able to have legal recourse on the basis of “inaccurate” calculations.
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?		<p>The repeated references to BSAD in this assessment consultation, whilst a separate BSAD consultation takes places, illustrates the clumsiness of this parallel dual governance. However, we do support the concept of "Option Price" whereby this price is added to the "utilisation price" to derive an "effective price". This would be preferred to the current Price Adjusters BPA and SPA.</p> <p>We would also like to comment that the short timescales for most BSAD responses tend to exacerbate the difficulties of having BSAD governed outside the BSC.</p>
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	No, we do not wish to propose a different treatment of BSAD for P137
7.	In your opinion, and given the	YES	This ensures/establishes the stability of cashout prices, so that they do not change as time passes.

Q	Question	Response	Rationale
	technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?		
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	<p>There is an implicit assumption that “undo’s” on a BM unit cannot be related to the resolution of energy imbalances. We disagree; certainly it is not clear that these are constraint-related, i.e. that they should be tagged.</p> <p>Therefore, we do not support the principle of BM Unit Undo tagging.</p> <p>Regarding offsetting tagging, we do not agree with the assertion by the proposer of P137 that BSAD trades pre Gate Closure cannot ever have been taken for system purposes. We see no reason to exclude them from the stacks used for the regular, presently-existent NIV-tagging process.</p>
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of		<p>We consider that P137 will not better facilitate 3 (b). It will place an unmanageable risk on Parties.</p> <p>Regarding incentives to balance :</p> <p>Modification P137, if passed, could give a very strong incentive for Parties to lengthen their positions at Gate Closure over many Settlement Periods. This may lead to increased costs through inefficient over-contracting. We realise that a marginal SSP in a long system is more extreme than existing SSPs but the magnitude of the effect on SSP when long would be far less than the effect on SBP when the system is short, so the asymmetric incentive (to go long, out of fear of high SBP) would be much enhanced by P137.</p>

Q	Question	Response	Rationale
	supply?		<p>However, at times of system stress there are different considerations for generators. Generators may be very wary, at such times, of high marginal imbalance cashout prices. This may lead them to not forward-contract at these particular times, or to not contract at anything like full capability, for fear of breaking down and being exposed to marginal imbalance cashout prices. This effect on generators' behaviour at times of peak demand is not desirable and has adverse consequences for security of supply.</p> <p>We believe that it is cheaper and more efficient for reserve (of the precise required response characteristics) to be contracted-for centrally, by NGT, than by suppliers all going long.</p>
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		<p>The signals provided by existing Energy Imbalance Prices seem to ensure – subject to experience this winter with the new formulation - that Parties in a position of imbalance have a reasonable incentive to trade out their exposure in advance of Gate Closure.</p> <p>These existing price signals encourage generators that have spare capacity to make it available either in the short-term forwards markets or to the SO via the Balancing Mechanism. They also encourage suppliers to contract adequately or generously. This contracting in turn facilitates the security of electricity supplies as generators then operate to contract.</p> <p>Marginal Energy Imbalance Prices could potentially be distortionary as they could be set based on a very small volume of energy accepted by the SO - or alternatively based on a System Balancing action.</p> <p>A marginal cash-out regime would certainly increase the risk of “gaming”.</p> <p>Disproportionately large amounts of cash could be moved around at times, particularly at times of high marginal SBP, through the RCRC mechanism. We note the potentially-discriminatory effect that a single site generator that fails at a time of very high marginal cashout SBP price will not receive any compensating RCRC income from the penalties levied on other short parties at such a time, whereas a portfolio generator, with or without a supply</p>

Q	Question	Response	Rationale
			<p>business, would receive such offsetting income.</p> <p>Modification P137, if passed, could give a very strong incentive for Parties to lengthen their positions at Gate Closure over many Settlement Periods. This may lead to increased costs through inefficient over-contracting.</p> <p>However, at times of system stress there are different considerations for generators. Generators may be very wary, at such times, of high marginal imbalance cashout prices. This may lead them to not forward-contract at these particular times, or to not contract at anything like full capability, for fear of breaking down and being exposed to marginal imbalance cashout prices. This effect on generators' behaviour at times of peak demand is not desirable and has adverse consequences for security of supply.</p>
11.	<p>What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?</p>		<p>We believe that marginal imbalance cashout pricing would go very much beyond cost reflectivity. We take the view that the current, and similar, approaches, where at least the "main" price is calculated on an average-cost approach, seems to best fit with a pragmatic interpretation of cost-reflectivity. A marginal approach where a single, shallow (small volume) acceptance that may have been subject to "gaming" or may have been accepted for system-related reasons does not seem to accord well with even the most academic interpretation of "cost-reflectivity". It would seem to risk at times imposing an arbitrary penalty on those who are out of balance, rather than "targetting costs" at them.</p>
12.	<p>In your opinion, will P137 have an impact on the</p>	YES	<p>The volatility and manipulability of cashout prices under a marginal approach is likely to feed back into increased uncertainty and volatility in the forwards and, especially, spot markets. This could damage liquidity there by widening bid-offer spreads. The large increase in operational risks would also be rather likely to make our sector</p>

Q	Question	Response	Rationale
	prices emerging from the forwards and spot markets, if so why? If not, why not?		somewhat less attractive, all other things being equal, to new entrants, damaging forward market liquidity and perhaps even damaging security of supply in the longer run.
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>We believe that P137 if passed would impose unmanageable risks on parties.</p> <p>Disproportionately large amounts of cash could be moved around at times, particularly at times of high marginal SBP, through the RCRC mechanism. We note the potentially-discriminatory effect that a single site generator that fails at a time of very high marginal cashout SBP price will not receive any compensating RCRC income from the penalties levied on other short parties at such a time, whereas a portfolio generator, with or without a supply business, would receive such offsetting income.</p>
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	<p>We believe that P137 if passed would impose unmanageable risks on parties, particularly at times of system stress, of gaming, or of “pollution” of the main BOA stack due to inaccurate and incomplete targetting of system-related BOAs in the tagging/estimation process. In other words, marginal pricing would greatly sensitise imbalance prices to the nature of the estimated-identification (tagging) of system balancing actions. Inaccurate tagging would have relatively little effect on the main price at present, but if P137 were passed it could potentially greatly distort the main Energy Imbalance Price.</p>
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what		<p>Disproportionately large amounts of cash could be moved around at times, particularly at times of high marginal SBP, through the RCRC mechanism. We note the potentially-discriminatory effect that a single site generator that fails at a time of very high marginal cashout SBP price will not receive any compensating RCRC income from the penalties levied on other short parties at such a time, whereas a portfolio generator, with or without a supply</p>

Q	Question	Response	Rationale
	influence do you think this will have on the (balancing) behaviour of Parties?		<p>business, would receive such offsetting income.</p> <p>Modification P137, if passed, could give a very strong incentive for Parties to lengthen their positions at Gate Closure over many Settlement Periods. This may lead to increased costs through inefficient over-contracting.</p> <p>However, at times of system stress there are different considerations for generators. Generators may be very wary, at such times, of high marginal imbalance cashout prices. This may lead them to not forward-contract at these particular times, or to not contract at anything like full capability, for fear of breaking down and being exposed to marginal imbalance cashout prices. This effect on generators' behaviour at times of peak demand is not desirable and has adverse consequences for security of supply.</p>
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	<p>The BSC Panel have just reduced the credit assessment price from £24 to £18/MWh due to the perceived reduction in SBP, for which CAP is a long-term proxy, since 11th March 2003. Clearly if P137 were passed the CAP would need both increasing and temporally-profiling such that CAP would need to be very high at times of likely peaks in marginal SBP, to ensure proper protection to participants. However, this would be likely to greatly increase the size of cash deposits or, more likely, letters of credit required from some parties. Letters of credit are considerably more expensive for some classes of participant so there would be an indirect discriminatory effect.</p>
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		<p>See our answers to questions 10,13, 15, and 16 which fully cover this question.</p>
18.	What effect, in your opinion, will P137 have in relation to		<p>We do not believe that P137 will better facilitate 3 (c). Rather, we think that it will deter new entrants as well as increasing operational risks to existing players, to the clear detriment of competition.</p>

Q	Question	Response	Rationale
	Applicable BSC Objective 3(c)?		
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	See our answers to questions 9 and 18.
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as	NO	

Q	Question	Response	Rationale
	part of the Assessment Procedure? Please give rationale		
22.	Are there any further comments on P137 that you wish to make?	YES	We believe that modification P78 needs to be given time to function over the winter before stock is taken of any further reforms that may be beneficial. There is benefit in some stability even if the present is not perfect.

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P136

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES	<p>It is our view that the marginal definition proposed better reflects the costs of energy balancing over the current volume weighted average definition.</p> <p>We acknowledge that the current 'tagging' methodology for removing 'system' balancing actions from the calculation of energy imbalance prices is approximate but believe that our analysis of marginal prices, (back calculated using the 'P78' NIV tagging methodology on historic data) shows that the current tagging arrangements are likely to be sufficiently robust in ensuring that actions taken for energy balancing purposes set energy imbalance prices. If this is proved not to be the case in the future, it will be for market participants to raise BSC modifications to improve the mechanism for separating 'system' and 'energy' balancing actions.</p>

Q	Question	Response	Rationale
			<p>However, we note the comments made by Ofgem in their decision letter on P135 regarding their concerns over imbalance prices being set by the price of a single action. If this is seen to be a significant barrier to implementing marginal pricing, then it may be appropriate for the PSMG to reconsider whether there is a more 'chunky' definition of marginal which could be more robust in ensuring that only actions taken for the purposes of energy balancing set the energy imbalance price.</p>
2.	<p>As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?</p>	Firm Volumes only	<p>The inclusion of volumes associated with reserve services provided by non-Balancing Mechanism participants in BSAD, as proposed by both P136 and P137, will significantly improve the calculation of the Net Imbalance Volume in real time. It is debatable as to whether "other" volumes should feed into the derivation of NIV, but we do not believe that doing so will provide any significant benefit to the signals provided by imbalance prices, particularly if they are estimates that will be reconciled post event. Furthermore changes to the detailed calculation of NIV were not proposed in P136.</p>
3.	<p>Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)</p>	(a)	<p>Neither P136 nor P137 propose the "freezing" of pricing data or imbalance prices in real time. We recognise the potential benefit to Parties in having firm imbalance prices as soon as possible, but also recognise that metered volume data changes and disputes are inherent to the settlement process, and feel that the current arrangements continue to be appropriate.</p> <p>Great emphasis has been placed on indicative imbalance prices by the PSMG during the assessment of this modification. Before any measures are taken to use indicative imbalance prices as anything other than indicative, or significant costs are incurred in making significant developments to real time reporting, we would suggest that some analysis is carried out to see</p>

Q	Question	Response	Rationale
			<p>whether a significant number of participants actually react to indicative imbalance prices (by trading for forthcoming settlement periods in response to the short-term price signals provided by Indicative imbalance prices) or whether the assessment of risk and the subsequent development of trading strategies tends to revolve around historic imbalance prices, derived in settlement timescales.</p> <p>In summary we believe that this issue should be considered (on its own merits) rather than part of the assessment of P136/P137.</p>
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	<p>See our answer to question (3)</p> <p>Neither P136 or P137 propose the “freezing” of pricing data or imbalance prices in real time, and we do not feel at this time that moving away from the current arrangements for the re-submission of BSAD has been justified.</p> <p>In relation to “exceptional circumstances” we feel it is important to retain the ability to correct BSAD that has been submitted in error, or not submitted due to a failure of systems which send or receive BSAD.</p>
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		<p>The calculation of BSAD - encompassing what services are included, and the treatment of any option fees associated with them, are the subject of a National Grid consultation on the BSAD Methodology Statement changes consequential to P136/P137, which has been released in parallel to this consultation. We believe that Parties with views on BSAD issues should respond to the BSAD consultation.</p> <p>Clearly any proposals made for revisions to the BSAD Methodology Statement need to be able to dovetail with changes in the BSC. It is our expectation that this alignment will be ensured further to the BSC</p>

Q	Question	Response	Rationale
			consultation and the BSAD consultation.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	NO	<p>It is our view that energy imbalance prices should reflect the price of balancing energy, whether balancing actions are taken within the Balancing Mechanism, or ahead of Gate Closure.</p> <p>We also note comments made by Ofgem in their recent decision letter regarding amendments to the treatment of option fees in BSAD. "Ofgem continues to consider that Energy Imbalance Prices should, as far as possible, reflect the costs of all Electricity Balancing costs whether incurred in the Balancing Mechanism or through Electricity Balancing contracts transacted ahead of Gate Closure."</p> <p>Furthermore we do not believe that the removal of BSAD is a valid alternative to P136 which proposes the introduction of marginal imbalance prices only.</p>
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	N/a	<p>We believe it is appropriate for option fees (paid to providers of Balancing Services) to feature in the calculation of imbalance prices at times when the services are utilised. Two proposed methodologies for achieving this are set out in the National Grid BSAD Methodology Statement consultation, which has been issued in parallel to this consultation.</p> <p>Please see our previous comments about the alignment of this consultation with the National Grid BSAD Consultation.</p>
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	We do not believe it is valid to propose a "different" treatment of BSAD for P136 or any alternative that may be developed, as P136 seeks to amend the calculation of the main energy imbalance price from a volume weighted average methodology, to a marginal methodology, and does not propose

Q	Question	Response	Rationale
			<p>chnages to the treatment of BSAD in the BSC.</p> <p>Any comments relating to how BSAD is calculated should be made via the concurrent BSAD Consultation directly to National Grid.</p>
9.	<p>In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?</p>	YES	<p>Any action instructed by National Grid is done so because the balancing energy is considered to be required at the time the action is instructed. It is therefore appropriate that any action instructed should feed into the calculation of energy imbalance prices regardless of whether it is delivered or not. The same situation exists in the current baseline of the BSC. Any non-delivered action is likely to be replaced by a subsequent action making it unlikely that a non-delivered action will set the marginal price anyway.</p> <p>P136 does not propose changes to the current arrangements regarding non-delivery.</p>
10.	<p>Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?</p>	N/a	<p>This is not proposed by P136, but the principle is not unsound.</p>
11.	<p>What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?</p>		<p>The calculation of the 'main' imbalance price, using a marginal methodology, will provide more appropriate price signals to incentivise Market Participants to contract forward in order to mitigate the risk of not being able to balance at Gate Closure (even against low probability events). Improving incentives on Market Participants to be able to achieve an efficient position in respect of 'balance' will assist us as System Operator in achieving overall system balance. We further believe that in times of energy shortage, such incentives will allow the market to value capacity appropriately, and ensure that there is always sufficient generation available to meet demand in all scenarios, promoting security of supply.</p>

Q	Question	Response	Rationale
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		<p>It is not appropriate to speculate about possible future pricing strategies that may be adopted by BM participants as a result of changes to the calculation of imbalance prices. There is no evidence to suggest that Bid/Offer prices are currently used to mitigate imbalance risk, or will be in the future.</p> <p>However, the knowledge that Participants' Bid/Offer prices could set the imbalance price (potentially placing them under increased scrutiny) may result in participants further ensuring that they submit justifiable prices. Participants who are tempted to use Bid/Offer prices to indicate that their service is unavailable, will be more likely to use other parameters to notify this to the System Operator (e.g. notice to bid/offer parameters for demand side BM participants) which is more appropriate.</p>
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>The price paid for energy in the forwards market is a marginal price. In order to assist participants in making efficient contracting decisions ahead of gate closure, the price of energy post gate closure - the main energy imbalance price - should reflect the underlying marginal cost of providing balancing energy.</p> <p>As System Operator, we take balancing actions at a range of prices, for different electricity balancing products (both pre-gate closure and in the balancing mechanism). It is our view that the current volume weighted average methodology for deriving an energy price from these electricity balancing actions can understate the true cost of providing balancing energy. Hence we believe that moving to a marginal methodology for deriving an energy price from these electricity balancing actions will be more reflective of the cost of producing (or reducing) the energy required to balance.</p>

Q	Question	Response	Rationale
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	It is our view that a 'Marginal' Energy Imbalance Price provides a better reflection of the underlying cost of <u>energy</u> balancing, sending a more appropriate price signal to the forwards markets. More appropriate price signals provided by imbalance prices will incentivise Market Participants to trade in the forwards markets to an efficient position. The prices emerging from these markets will reflect the supply – demand balance, and in times of energy shortage this is likely to mean that prices will reflect the underlying costs of providing energy at the margin. Currently, imbalance prices understate the cost of buying balancing energy, creating the scenario where it is potentially financially more efficient for participants to take the risk of being in imbalance for low probability events (e.g. extremities of demand forecasts) rather than contract ahead in the forward markets to ensure that they are able to cover their position. Thus prices in the forward markets are failing to sustain sufficient generating capacity to ensure that the market is able to balance in all scenarios.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		It is up to Market Participants how they respond to signals provided by more appropriate imbalance prices. If participants adopt a risk management strategy by buying more 'options', this would reflect an efficient market response to appropriate price signals. See our answer to question 16.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	<p>It is reasonable to assume that any change to the calculation of imbalance prices can change the imbalance risk profile against which Market Participants contract forward. It is the risk profile generated by understated imbalance prices that is at the heart of the defect this modification aims to address.</p> <p>Currently, imbalance prices understate the cost of buying balancing energy, creating the scenario where it is potentially financially more efficient for</p>

Q	Question	Response	Rationale
			<p>participants to take the risk of being in imbalance for low probability events (e.g. extremities of demand forecasts) rather than contract ahead in the forward markets to ensure that they are able to cover their position.</p> <p>Hence if Market Participants are exposed to the appropriate level of risk (where imbalance prices better reflect the costs of energy balancing) when they are in imbalance, the incentives to make efficient trading decisions, to maintain reliable plant are improved.</p> <p>If the market requires new products to manage this appropriate level of risk, then it is the role of the market to define and provide them.</p> <p>P136 will incentivise suppliers to ensure that they contract ahead to cover the demand of their customers in all circumstances. Equally P136 will incentivise generators to maintain their equipment so that it is reliable. Both of these impacts will better facilitate BSC Objective (b).</p>
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		<p>This modification proposal does not change the principles by which RCRC allocation is made. The net position of a party who is balanced (and has not paid imbalance charges) will remain better than if that party had been in imbalance, and paid imbalance charges. Hence it is unlikely to change balancing behaviour of Parties. Further to this it is important to stress that:</p> <ul style="list-style-type: none"> ● RCRC is <u>not</u> a mechanism for “offsetting” exposure to imbalance charges. ● Imbalance prices and RCRC are <u>not</u> mechanisms for recovering the costs of balancing actions taken by the System Operator. These are recovered through Transmission Company Balancing Services Use of System (BSUoS) charges.

Q	Question	Response	Rationale
			<p>In summary, whilst there remains a 'market credible' number of participants, any party who is out of balance, (say) paying SBP, will pay significantly more via this route than he will receive via his share of RCRC. As RCRC is independent of contractual position – it provides no incentive to balance.</p>
18.	<p>In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?</p>	NO	<p>We understand that this question stems from a concern that P136 may result in higher and more volatile levels of imbalance prices. It is our view that the credit cover mechanism described in section M of the BSC is sufficiently robust to accommodate any changes to the level of current imbalance prices.</p> <p>We believe that the credit cover arrangements should be designed to cope with the levels of exposure they are covering (for example via a parties exposure to imbalance prices) and NOT vice versa.</p>
19.	<p>In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?</p>		<p>A marginal calculation of the main imbalance price will provide more appropriate energy price signals to the forward markets, incentivising all classes of participants to strike energy contracts at prices which reflect the value of energy as determined by market supply/demand fundamentals.</p> <p>It should be noted that the Grid Code prevents any Party from 'self-balancing' (e.g. if a generating unit trips, and a party could replace it with another) post Gate Closure, therefore incentives to balance are uniform across all classes of Party.</p>
20.	<p>What effect, in your opinion, will P136 have in relation</p>		<p>It is our view that a 'Marginal' calculation of the main Energy Imbalance</p>

Q	Question	Response	Rationale
	to Applicable BSC Objective 3(c)?		Price provides a better reflection of the costs of <u>energy</u> balancing, sending a more appropriate price signal to the forwards markets. This will incentivise Market Participants to trade in the forwards markets to an efficient position. This promotes effective competition in the generation and supply of electricity, and prevents cross subsidies, hence better facilitates applicable BSC objective (c).
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES	<p>It is our view that a 'Marginal' calculation of the main Energy Imbalance Price provides a better reflection of the costs of <u>energy</u> balancing, sending a more appropriate price signal to the forwards markets. This will incentivise Market Participants to trade in the forwards markets to an efficient position. This promotes effective competition in the generation and supply of electricity, and prevents cross subsidies, hence better facilitates applicable BSC objective (c).</p> <p>Incentivising participants to trade forward to a more efficient position will also enhance the ability of participants to achieve an individual balanced position. In doing so, this better facilitates the Transmission Company in the efficient, economic and co-ordinated operation of the Transmission system in achieving overall system balance, hence better facilitating applicable BSC objective (b).</p>
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
23.	Are there any further comments on P136 that you wish to make?	NO	

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	YES	<p>It is our view that the marginal definition proposed better reflects the costs of energy balancing over the current volume weighted average definition.</p> <p>We acknowledge that the current 'tagging' methodology for removing 'system' balancing actions from the calculation of energy imbalance prices is approximate but believe that our analysis of marginal prices, (back calculated using the 'P78' NIV tagging methodology on historic data) shows that the current tagging arrangements are likely to be sufficiently robust in ensuring that actions taken for energy balancing purposes set energy imbalance prices. If this is proved not to be the case in the future, it will be for market participants to raise BSC modifications to improve the mechanism for separating 'system' and 'energy' balancing actions.</p> <p>However, we note the comments made by Ofgem in their decision letter on P135 regarding their concerns over imbalance prices being set by the price of a single action. If this is seen to be a significant barrier to implementing marginal pricing, then it may be appropriate for the PSMG to reconsider whether there is a more 'chunky' definition of marginal which could be more robust in ensuring that only actions taken for the purposes of energy balancing set the energy imbalance price.</p>
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	Firm Volumes only	The inclusion of volumes associated with reserve services provided by non-Balancing Mechanism participants in BSAD, as proposed by both P136 and P137, will significantly improve the calculation of the Net Imbalance Volume in real time. It is debatable as to whether "other" volumes should feed into the derivation of NIV, but we do not believe that doing so will provide any

Q	Question	Response	Rationale
			significant benefit to the signals provided by imbalance prices, particularly if they are estimates that will be reconciled post event. Furthermore changes to the detailed calculation of NIV were not proposed in P136.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a)	<p>Neither P136 nor P137 propose the “freezing” of pricing data or imbalance prices in real time. We recognise the potential benefit to Parties in having firm imbalance prices as soon as possible, but also recognise that metered volume data changes and disputes are inherent to the settlement process, and feel that the current arrangements continue to be appropriate.</p> <p>Great emphasis has been placed on indicative imbalance prices by the PSMG during the assessment of this modification. Before any measures are taken to use indicative imbalance prices as anything other than indicative, or significant costs are incurred in making significant developments to real time reporting, we would suggest that some analysis is carried out to see whether a significant number of participants actually react to indicative imbalance prices (by trading for forthcoming settlement periods in response to the short-term price signals provided by Indicative imbalance prices) or whether the assessment of risk and the subsequent development of trading strategies tends to revolve around historic imbalance prices, derived in settlement timescales.</p> <p>In summary we believe that this issue should be considered (on its own merits) rather than part of the assessment of P136/P137.</p>
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	NO	<p>See our answer to question (3)</p> <p>Neither P136 or P137 propose the “freezing” of pricing data or imbalance prices in real time, and we do not feel at this time that moving away from</p>

Q	Question	Response	Rationale
			<p>the current arrangements for the re-submission of BSAD has been justified.</p> <p>In relation to "exceptional circumstances" we feel it is important to retain the ability to correct BSAD that has been submitted in error, or not submitted due to a failure of systems which send or receive BSAD.</p>
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	N/a	<p>The calculation of BSAD - encompassing what services are included, and the treatment of any option fees associated with them, are the subject of a National Grid consultation on the BSAD Methodology Statement changes consequential to P136/P137, which has been released in parallel to this consultation. We believe that Parties with views on BSAD issues should respond to the BSAD consultation.</p> <p>Clearly any proposals made for revisions to the BSAD Methodology Statement need to be able to dovetail with changes in the BSC. It is our expectation that this alignment will be ensured further to the BSC consultation and the BSAD consultation.</p>
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	<p>We do not believe it is valid to propose a "different" treatment of BSAD for P136 or any alternative that may be developed, as P136 seeks to amend the calculation of the main energy imbalance price from a volume weighted average methodology, to a marginal methodology, and does not propose changes to the treatment of BSAD in the BSC.</p> <p>Any comments relating to how BSAD is calculated should be made via the concurrent BSAD Consultation directly to National Grid.</p>
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	Any action instructed by National Grid is done so because the balancing energy is considered to be required at the time the action is instructed. It is therefore appropriate that any action instructed should feed into the calculation of energy imbalance prices regardless of whether it is delivered

Q	Question	Response	Rationale
			or not. The same situation exists in the current baseline of the BSC. Any non-delivered action is likely to be replaced by a subsequent action making it unlikely that a non-delivered action will set the marginal price anyway.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES	Whilst the principles behind these tagging mechanisms are not unsound, we are unsure as to whether the materiality of the defect that BMU undo tagging aims to address is sufficient to outweigh the additional complexity it introduces in the price calculation.
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		The calculation of the 'main' imbalance price, using a marginal methodology, will provide more appropriate price signals to incentivise Market Participants to contract forward in order to mitigate the risk of not being able to balance at Gate Closure (even against low probability events). Improving incentives on Market Participants to be able to achieve an efficient position in respect of 'balance' will assist us as System Operator in achieving overall system balance. We further believe that in times of energy shortage, such incentives will allow the market to value capacity appropriately, and ensure that there is always sufficient generation available to meet demand in all scenarios, promoting security of supply.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		<p>It is not appropriate to speculate about possible future pricing strategies that may be adopted by BM participants as a result of changes to the calculation of imbalance prices. There is no evidence to suggest that Bid/Offer prices are currently used to mitigate imbalance risk, or will be in the future.</p> <p>However, the knowledge that Participants' Bid/Offer prices could set the imbalance price (potentially placing them under increased scrutiny) may result in participants further ensuring that they submit justifiable prices. Participants who are tempted to use Bid/Offer prices to indicate that their service is unavailable, will be more likely to use other parameters to notify</p>

Q	Question	Response	Rationale
			this to the System Operator (e.g. notice to bid/offer parameters for demand side BM participants) which is more appropriate.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		<p>The price paid for energy in the forwards market is a marginal price. In order to assist participants in making efficient contracting decisions ahead of gate closure, the price of energy post gate closure - the main energy imbalance price - should reflect the underlying marginal cost of providing balancing energy.</p> <p>As System Operator, we take balancing actions at a range of prices, for different electricity balancing products (both pre-gate closure and in the balancing mechanism). It is our view that the current volume weighted average methodology for deriving an energy price from these electricity balancing actions can understate the true cost of providing balancing energy. Hence we believe that moving to a marginal methodology for deriving an energy price from these electricity balancing actions will be more reflective of the cost of producing (or reducing) the energy required to balance.</p>
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	<p>It is our view that a 'Marginal' Energy Imbalance Price provides a better reflection of the underlying cost of <u>energy</u> balancing, sending a more appropriate price signal to the forwards markets. More appropriate price signals provided by imbalance prices will incentivise Market Participants to trade in the forwards markets to an efficient position. The prices emerging from these markets will reflect the supply – demand balance, and in times of energy shortage this is likely to mean that prices will reflect the underlying costs of providing energy at the margin. Currently, imbalance prices understate the cost of buying balancing energy, creating the scenario where it is potentially financially more efficient for participants to take the</p>

Q	Question	Response	Rationale
			<p>risk of being in imbalance for low probability events (e.g. extremities of demand forecasts) rather than contract ahead in the forward markets to ensure that they are able to cover their position. Thus prices in the forward markets are failing to sustain sufficient generating capacity to ensure that the market is able to balance in all scenarios.</p>
13.	<p>What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?</p>		<p>It is up to Market Participants how they respond to signals provided by more appropriate imbalance prices. If participants adopt a risk management strategy by buying more 'options', this would reflect an efficient market response to appropriate price signals. See our answer to question 16.</p>
14.	<p>In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?</p>	YES	<p>It is reasonable to assume that any change to the calculation of imbalance prices can change the imbalance risk profile against which Market Participants contract forward. It is the risk profile generated by understated imbalance prices that is at the heart of the defect this modification aims to address.</p> <p>Currently, imbalance prices understate the cost of buying balancing energy, creating the scenario where it is potentially financially more efficient for participants to take the risk of being in imbalance for low probability events (e.g. extremities of demand forecasts) rather than contract ahead in the forward markets to ensure that they are able to cover their position.</p> <p>Hence if Market Participants are exposed to the appropriate level of risk (where imbalance prices better reflect the costs of energy balancing) when they are in imbalance, the incentives to make efficient trading decisions, to maintain reliable plant are improved.</p> <p>If the market requires new products to manage this appropriate level of</p>

Q	Question	Response	Rationale
			<p>risk, then it is the role of the market to define and provide them.</p> <p>P136 will incentivise suppliers to ensure that they contract ahead to cover the demand of their customers in all circumstances. Equally P136 will incentivise generators to maintain their equipment so that it is reliable. Both of these impacts will better facilitate BSC Objective (b).</p>
15.	<p>What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?</p>		<p>This modification proposal does not change the principles by which RCRC allocation is made. The net position of a party who is balanced (and has not paid imbalance charges) will remain better than if that party had been in imbalance, and paid imbalance charges. Hence it is unlikely to change balancing behaviour of Parties. Further to this it is important to stress that:</p> <ul style="list-style-type: none"> ● RCRC is <u>not</u> a mechanism for “offsetting” exposure to imbalance charges. ● Imbalance prices and RCRC are <u>not</u> mechanisms for recovering the costs of balancing actions taken by the System Operator. These are recovered through Transmission Company Balancing Services Use of System (BSUoS) charges. <p>In summary, whilst there remains a ‘market credible’ number of participants, any party who is out of balance, (say) paying SBP, will pay significantly more via this route than they will receive via their share of RCRC. As RCRC is independent of contractual position – it provides no incentive to balance.</p>
16.	<p>In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?</p>	NO	<p>We understand that this question stems from a concern that P136 may result in higher and more volatile levels of imbalance prices. It is our view that the credit cover mechanism described in section M of the BSC is</p>

Q	Question	Response	Rationale
			<p>sufficiently robust to accommodate any changes to the level of current imbalance prices.</p> <p>We believe that the credit cover arrangements should be designed to cope with the levels of exposure they are covering (for example via a parties exposure to imbalance prices) and NOT vice versa.</p>
17.	<p>In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?</p>		<p>A marginal calculation of the main imbalance price will provide more appropriate energy price signals to the forward markets, incentivising all classes of participants to strike energy contracts at prices which reflect the value of energy as determined by market supply/demand fundamentals.</p> <p>It should be noted that the Grid Code prevents any Party from 'self-balancing' (e.g. if a generating unit trips, and a party could replace it with another) post Gate Closure, therefore incentives to balance are uniform across all classes of Party.</p>
18.	<p>What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?</p>		<p>It is our view that a 'Marginal' calculation of the main Energy Imbalance Price provides a better reflection of the costs of energy balancing, sending a more appropriate price signal to the forwards markets. This will incentivise Market Participants to trade in the forwards markets to an efficient position. This promotes effective competition in the generation and supply of electricity, and prevents cross subsidies, hence better facilitates applicable BSC objective (c).</p>
19.	<p>Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)</p>	YES	<p>It is our view that a 'Marginal' calculation of the main Energy Imbalance Price provides a better reflection of the costs of <u>energy</u> balancing, sending a more appropriate price signal to the forwards markets. This will incentivise Market Participants to trade in the forwards markets to an</p>

Q	Question	Response	Rationale
			<p>efficient position. This promotes effective competition in the generation and supply of electricity, and prevents cross subsidies, hence better facilitates applicable BSC objective (c).</p> <p>Incentivising participants to trade forward to a more efficient position will also enhance the ability of participants to achieve an individual balanced position. In doing so, this better facilitates the Transmission Company in the efficient, economic and co-ordinated operation of the Transmission system in achieving overall system balance, hence better facilitating applicable BSC objective (b).</p>
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES	As question 19.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
22.	Are there any further comments on P137 that you wish to make?	NO	

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P136

Note response starts at Question # 11

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal	YES / NO	

Q	Question	Response	Rationale
	price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?		
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES / NO	
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO	
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	YES / NO	

Q	Question	Response	Rationale
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES / NO	
8.	Do you wish to propose a different treatment of BSAD for P136?	YES / NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES / NO	
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO	
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		There is no evidence that P136 will allow NGC to better achieve Objective 3(b). In fact there is also a possibility that its operation may produce worse results than the present system as modified by p78. P78 has not been tested and so cannot be judged to have been either a success or failure.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		There is a danger of parties adopting a strategy that would include large and dangerously speculative bids.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in		There is risk that imbalance costs will rise and those in imbalance may pay more than the cost actually incurred by NGT

Q	Question	Response	Rationale
	imbalance?		
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	May increase forward prices as parties might feel safer over contracting
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>It is important to bear in mind that end customers effectively finance the whole balancing and settlement process whatever arrangements are in place.</p> <p>Energywatch is concerned that the modification might increase credit cover for those parties who are perceived to be carrying greater risk of imbalance especially renewable generators from sources such as wind. Such generators would almost certainly be obliged to use consolidator services and therefore make their prices less competitive than they might otherwise have been.</p> <p>We are also concerned that these proposed arrangements would act both as a barrier to new entrants in the market and therefore maintain the market power of the existing large vertically integrated players. In effect there will be no prospect of effective countervailing power.</p> <p>It also goes almost without saying that this modification would potentially increase the transaction costs of the existing participants.</p> <p>All of these additional generation costs will be passed to customers.</p>
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	The proposals will change parties' exposure to risk and therefore have a significant impact on risk their management strategy.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		We are concerned at the possible effects and incentives relating to "beer fund" that could possibly favour larger portfolio generators.
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	Credit cover will inevitably change with risk

Q	Question	Response	Rationale
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		Will probably discriminate against renewable single site generator
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		Would act as an entry barrier.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	There is every chance that P136 may be less cost reflective than the existing arrangements.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES / NO	
23.	Are there any further comments on P136 that you wish to make?	YES / NO	

P137

Note response starts at Question # 6

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	YES / NO	
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV	YES / NO	

Q	Question	Response	Rationale
	derived in real time with only firm volumes?		
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a) / (b) / (c)	
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO	
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	NO	Option fees may act like an artificial construct placed over the existing arrangements and therefore unnecessarily increase balancing costs.
6.	Do you wish to propose a different treatment of BSAD for P137?	YES / NO	
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES / NO	
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO	
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		There is no evidence that P136 will allow NGC to better achieve Objective 3(b). In fact there is also a possibility that its operation may produce worse results than the present system as modified by p78. P78 has not been tested and so cannot be judged to have been either a success or failure.
10.	What effect, in your opinion, will P137 have on Parties		There is a danger of parties adopting a strategy that would include large

Q	Question	Response	Rationale
	behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		and dangerously speculative bids.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		It is likely that the methodology will put the costs of balancing up as parties as its application generates transaction costs itself.
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES / NO	Parties are likely to over contract to avoid imbalance charges.
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		<p>It is important to bear in mind that end customers effectively finance the whole balancing and settlement process whatever arrangements are in place.</p> <p>Energywatch is concerned that the modification might increase credit cover for those parties who are perceived to be carrying greater risk of imbalance especially renewable generators from sources such as wind. Such generators would almost certainly be obliged to use consolidator services and therefore make their prices less competitive than they might otherwise have been.</p> <p>We are also concerned that these proposed arrangements would act both as a barrier to new entrants in the market and therefore maintain the market power of the existing large vertically integrated players. In effect there will be no prospect of effective countervailing power.</p> <p>It also goes almost without saying that this modification would potentially increase the transaction costs of the existing participants.</p> <p>All of these additional generation costs will be passed to customers.</p>
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES / NO	The proposals will change parties' exposure to risk and therefore have a significant impact on risk their management strategy.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will		We are concerned at the possible effects and incentives relating to "beer fund" that could possibly favour larger portfolio generators.

Q	Question	Response	Rationale
	have on the (balancing) behaviour of Parties?		
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		P 137 looks likely to be a barrier to the entry for new generators and therefore it would have an adverse effect on 3(c)
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO	There is every chance that P136 may be less cost reflective than the existing arrangements.
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO	Modification may act as a barrier to entry
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES / NO	
22.	Are there any further comments on P137 that you wish to make?	NO	

P136_137_ASS_018 - Entergy-Koch Trading Europe Ltd**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES / NO Yes	
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES / NO	Our preference would be to have real time NIV calculations based on firm volumes. However if there is sufficient confidence in non-firm volume estimates then these could also be included. We would not want volatile non-firm volume estimates used; as this could create uncertainty and reduce confidence in the marginal price.
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? (a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a)/(b)/(c) (b)	We consider that there is a significant advantage in having certainty in the imbalance price calculation, as this is the only price that market participants can react to in real time. Having significant changes afterwards under a marginal pricing approach is likely to increase the risk of significant price revision relative to revisions under the weighted average calculation. However if there is insufficient confidence in the quality of the data at real time then this will undermine the whole marginal pricing concept as prices could end up becoming open to challenge
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO Yes	Without error correction it would seem possible for aggrieved parties to have grounds for appeal through the regulatory authorities or possibly the courts, particularly when the errors result in significantly different market prices. Again as stated in Q3 this will hardly be ideal and could undermine the whole marginal concept
5.	Noting the Transmission Company BSAD		We consider that there is a need for a proper review of all NGC's reserve and energy

Q	Question	Response	Rationale
	consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		procurement activities. A robust marginal pricing regime requires users to develop a full understanding and confidence in the actions of NGC. The changes outlined in the BSAD consultation provide some improvements but there is still a need to increase transparency and to assess the treatment of other payments such as warming contracts.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	YES / NO No	Although there is greater certainty in the calculation of price, the removal of BSAD would seem to remove a significant part of imbalance price information from the calculation, which is counter to the basis of the modification.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES / NO Yes	Reflecting option fees in the calculation of balancing prices based on a methodology closer to usage is an improvement over the existing flat smear of costs. But see answer to Q5
8.	Do you wish to propose a different treatment of BSAD for P136?	YES / NO No	However, as noted in Q5 a full review of BSAD should be undertaken in order to improve the quality of the price signal and give greater certainty for market participants.
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES / NO Yes	Our preference would be for a technical solution that resulted in non-delivered BOAs not setting the marginal price. However, as this does not seem possible, we accept that these actions could set the marginal price. We consider that non-delivered BOAs should be brought to the attention of Ofgem so that its market surveillance team can ascertain the reasons for the poor performance and seek further information should there be any hint of market manipulation.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO Yes	
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		The modification should increase the incentive to balance, and will increase the security of supply in the long run as the balancing market prices inform the forward markets. But this will only happen if there is an increase in transparency in NGC's actions and all BSAD transactions are properly accounted for. Without further enhancements, marginal

Q	Question	Response	Rationale
			pricing could introduce more unmanageable risk.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		It is difficult to guess how different parties will act with marginal pricing. Marginal pricing is more likely to expose parties to the full cost of reliability and the proper provision of supply. Some parties will feel more constrained by the additional risk, while others may be able to offer greater flexibility and gain the rewards for doing so. The ability of flexible parties to respond will depend on the quality of the price signal, and this (as mentioned above) this partly reflects the transparency and timeliness of information from NGC's actions, and the correct treatment of these actions.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		In the long run, those parties with unreliable generation or supply arrangements are likely to pay more than those parties able to manage their positions. This is an improvement over average prices where under-performing parties are being subsidised by the rest of the market. But as noted above, the success of marginal pricing to drive these outcomes is still depends on consequential changes to other documents to increase transparency and certainty.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES / NO Yes	This proposal may improve the linkages between the BM and the forward markets, but only if improvements are made in respect of transparency and accountability of non-BM trades which form a significant part of the price formation process. To some extent the actions and the prices in the BM market will become more relevant in the derivation of forward prices, hence putting more pressure on their correct derivation. Economic agents will always be in a position where they will have to decide how much information from spot prices can be carried forward. For example, agents have to distinguish between spot prices driven by short term actions and issues, and those driven by fundamental changes to supply and demand that could persist.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		There should be no material effect on incremental costs and hence no significant cost changes for consumers. To the extent that the changes improve the operation of the market, consumers should receive a benefit.

Q	Question	Response	Rationale
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES / NO Yes	Risk exposure may increase (and the extent of this increase is also related to the points raised earlier with respect to transparency and the treatment of different NGT actions). As a result you would expect each company to assess the potential impact (which may be negligible for some) and adjust accordingly. However, stronger linkages between the spot and forward markets may lead to a better ability to price risk products which may be useful to some market participants.
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		There may be short-term effects on the level of RCRC, but over the long term the effect should be minimal. This is because parties constantly subject to marginal imbalance charges are likely to take actions to reduce exposure to at least the level they are willing to bear under the existing arrangements.
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES / NO No	There may be some small change in individual party positions if there is no behavioural change. However, if parties react to more appropriate levels of risk then we would not expect any significant change in the credit cover requirements.
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		The removal of averaging in the calculation of the cash out prices will provide a sharper signal to the market and expose parties to more appropriate levels of risk. This will mean that parties will compete based on their actual risks rather than a partly socialised risk base. However the quality of the signal is still subject to the level of transparency of NGC's actions and the treatment of particular actions.
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO Yes	See above for 3(c), and in regard to 3(d) the proposal will move toward greater efficiency in the balancing and settlement arrangements by having prices that more accurately reflect the marginal cost of actions in the spot market and provide information to the forward markets. However this needs to be tempered with the need to increase transparency in NGC's actions and to consider the treatment of other NGC contracts.

Q	Question	Response	Rationale
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES / NO No	
23.	Are there any further comments on P136 that you wish to make?	YES / NO Yes	The concept of marginal pricing in markets should be the ideal starting point. However, in markets where there is difficulty in discovering the correct price there will be risks associated with this approach. P136 relies on a view that all relevant activities are accounted for in the cash out price and that the actions of a key player such as NGT are well understood. We do not consider that the treatment of certain NGT actions or the transparency around such actions is sufficient. As such, the introduction of marginal pricing alone will not reduce the disconnect between the balancing mechanism and the forward markets as much as it should, and may even introduce the risk of more detrimental outcomes. It would be preferable to have considered the pricing issue in whole, (even though the existing governance arrangements make this difficult).

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	YES / NO Yes	
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the	YES / NO	Our preference would be to have real time NIV calculations based on firm volumes. However if there is sufficient confidence in non-firm volume estimates then these could also be included. We would not want volatile non-firm volume estimates used; as this could create uncertainty reduce confidence in the marginal price.

Q	Question	Response	Rationale
	NIV derived in real time with only firm volumes?		
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(a)/(b)/(c) (b)	We consider that there is a significant advantage in having certainty in the imbalance price calculation, as this is the only price that market participants can react to in real time. Having significant changes afterwards under a marginal pricing approach is likely to increase the risk of significant price revision relative to revisions under the weighted average calculation. However if there is insufficient confidence in the quality of the data at real time then this will undermine the whole marginal pricing concept as prices could end up becoming open to challenge
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES / NO Yes	Without error correction it would seem possible for aggrieved parties to have grounds for appeal through the regulatory authorities or possibly the courts, particularly when the errors result in significantly different market prices. Again as stated in Q3 this will hardly be ideal and could undermine the whole marginal concept
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	YES / NO Yes	Reflecting option fees in the calculation of balancing prices based on a methodology closer to usage is an improvement over the existing flat smear of costs. However, we consider that there is a need for a proper review of all NGC's reserve and energy procurement activities. A robust marginal pricing regime requires users to develop a full understanding and confidence in the actions of NGC. The changes outlined in the recent BSAD consultation provide some improvements but there is still a need to increase transparency and to assess the treatment of other payments such as warming contracts.
6.	Do you wish to propose a different treatment of BSAD for P137?	YES / NO No	However, as noted in Q5 a full review of BSAD should be undertaken in order to improve the quality of the price signal and give greater certainty for market participants.
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES / NO Yes	Our preference would be for a technical solution that resulted in non-delivered BOAs not setting the marginal price. However, as this does not seem possible, we accept that these actions could set the marginal price. We consider that non-delivered BOAs should be brought to the attention of Ofgem so that its market surveillance team can ascertain the reasons for the poor performance and seek further information should there be any

Q	Question	Response	Rationale
			hint of market manipulation.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES / NO Yes	
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		The modification should increase the incentive to balance, and will increase the security of supply in the long run as the balancing market prices inform the forward markets. But this will only happen if there is an increase in transparency in NGC's actions and all BSAD transactions are properly accounted for. Without further enhancements, marginal pricing could introduce more unmanageable risk.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		It is difficult to guess how different parties will act with marginal pricing. As marginal pricing is more likely to expose parties to the full cost of reliability and the proper provision of supply. Some parties will feel more constrained by the additional risk, while others may be able to offer greater flexibility and gain the rewards for doing so. The ability of flexible parties to respond will depend on the quality of the price signal, and this (as mentioned above) partly reflects the transparency and timeliness of information from NGC's actions, and the correct treatment of these actions.
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		In the long run, those parties with unreliable generation or supply arrangements are likely to pay more than those parties able to manage their positions. This is an improvement over average prices where under-performing parties are being subsidised by the rest of the market. But as noted above, the success of marginal pricing to drive these outcomes is still depends on consequential changes to other documents to increase transparency and certainty.
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES / NO Yes	This proposal may improve the linkages between the BM and the forward markets, but only if improvements are made in respect of transparency and accountability of non-BM trades which form a significant part of the price formation process. To some extent the actions and the prices in the BM market will become more relevant in the derivation of forward prices, hence the greater need to ensure that this price is correct. Economic agents will always be in a position where they will have to decide how much information

Q	Question	Response	Rationale
			from spot prices can be carried forward. For example, agents have to distinguish between spot prices driven by short term actions and issues, and those driven by fundamental changes to supply and demand that could persist.
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		There should be no material effect on incremental costs and hence no significant cost changes for consumers. To the extent that the changes improve the operation of the market, consumers should receive a benefit.
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES / NO Yes	Risk exposure may increase (and the extent of the increase is also related to the points raised earlier with respect to transparency and the treatment of different NGT actions). As a result you would expect each company to assess the potential impact (which may be negligible for some) and adjust accordingly. However, stronger linkages between the spot and forward markets may lead to a better ability to price risk products which may be useful to some market participants.
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		There may be short term effects on the level of RCRC, but over the long term the effect should be minimal. This is because parties constantly subject to marginal imbalance charges are likely to take actions to reduce exposure to at least the level they are willing to bear under the existing arrangements.
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES / NO No	There may be some small change in individual party positions if there is no behavioural change. However, if parties react to more appropriate levels of risk then we would not expect any significant change in the credit cover requirements.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		The removal of averaging in the calculation of the cash out prices will provide a sharper signal to the market and expose parties to more appropriate levels of risk. This will mean that parties will compete based on their actual risks rather than a partly socialised

Q	Question	Response	Rationale
			risk base. However the quality of the signal is still subject to the level of transparency of NGC's actions and the treatment of particular actions.
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO Yes	See above for 3(c), and in regard to 3(d) the proposal will move toward greater efficiency in the balancing and settlement arrangements by having prices that more accurately reflect the marginal cost of actions in the spot market and provide information to the forward markets. However this needs to be tempered with the need to increase transparency in NGC's actions and to consider the treatment of other NGC contracts.
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO Yes	See above.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	YES / NO No	
22.	Are there any further comments on P137 that you wish to make?	YES / NO Yes	The concept of marginal pricing in markets should be the ideal starting point. However, in markets where there is difficulty in discovering the correct price there will be risks associated with this approach. P137 relies on a view that all relevant activities are accounted for in the cash out price and that the actions of a key player such as NGT are well understood. We do not consider that the treatment of certain NGT actions or the transparency around such actions is sufficient. As such, the introduction of marginal pricing alone will not reduce the disconnect between the balancing mechanism and the forward markets as much as it should, and may even introduce the risk of more detrimental outcomes. It would be preferable to have considered the pricing issue in whole, (even though the existing governance arrangements make this difficult).

P136_137_ASS_019 – Atlantic Electric and Gas Ltd**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	NO	Average price is more equitable
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(b)	
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	YES	

Q	Question	Response	Rationale
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	NO	
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	Suppliers will over cover
15.	What effect, in your opinion, will P136 have on the		

Q	Question	Response	Rationale
	incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	YES	
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
23.	Are there any further comments on P136 that you wish to make?	NO	

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	NO	Average price is more equitable
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(b)	
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137?	NO	
6.	Do you wish to propose a different treatment of BSAD for P137?	NO	
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	NO	

Q	Question	Response	Rationale
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	NO	
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		
11.	What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		
12.	In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	
13.	What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		

Q	Question	Response	Rationale
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	YES	
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	NO	
20.	Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES / NO	
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
22.	Are there any further comments on P137 that you wish to make?	NO	

P136_137_ASS_020 – Barclays Capital**P136**

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?	YES	<p>The proposed definition of marginal prices is appropriate. The fact that the marginal price may be set by a small volume is not in itself a source for concern if that is the marginal action. At present, there seems little economic justification for broadening the marginal definition to a band of acceptances (although we would be open to future suggestions)</p> <p>The combination of NIV tagging and CADL is sufficient to prevent short-duration and locational system actions from setting cash-out prices. (This view is supported by the analysis performed by NGT in submitting P136.) In our view, the current tagging methodologies are sufficiently robust to remove anomalous "system" actions from the energy price stack. Although any tagging methodology is inevitably going to be somewhat approximate, the benefits of adopting a marginal rather than average definition of the cash-out price in improving the overall cost-reflectivity of imbalance prices significantly outweighs the likely incidence of anomalous prices (particularly since anomalous prices can occur under the current rules). Tagging can also be improved in the light of future experience under P137 should that prove necessary.</p>
2.	As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non-firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?	YES	<p>Estimates of "non-firm" volumes should be included in the real-time price calculation if they are available with a reasonable degree of accuracy. However, if this is not possible, then we would accept NIV derived in real time with only firm volumes.</p>

Q	Question	Response	Rationale
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) Allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(b)	It is important that prompt prices remain firm (and subject to amendment only for manifest errors). The fact that some volumes used to calculate the NIV can be more accurately calculated ex post is not a relevant justification for recalculating prices ex post and thereby undermining the prompt cash-out price signals. With accurate estimates used to calculate a real time price, we see no "moral" or other difficulties with going firm with the price in real-time, since the real-time price calculation will include an accurate, unbiased real-time estimate of the correct NIV.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	The principle of firm pricing is very important. However, it would lack credibility if the resultant prices were the result of an obvious error (as opposed to prices set based on reasonable estimates of the volumes for some balancing services).
5.	Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?		We will respond as appropriate to the BSAD consultation. We would like to see the same treatment of option fees under P136 as proposed under P137.
6.	Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?	NO	The removal of BSAD is not a valid alternative to P136. Not only is the removal of BSAD outside the scope of a modification designed to introduce marginal imbalance prices, but also the modification proposal explicitly envisages changes to the BSAD methodology statement implying its continuance. In any case, removal of BSAD would also not better resolve the defect that the modification proposal is designed to address.
7.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Adjustment variables (BPA and SPA)) set out by P137, for P136?	YES	This is primarily a matter for the BSAD consultation, which we will respond to in due course. However, we would support the adoption of the method for treating option fees set out for P137.
8.	Do you wish to propose a different treatment of BSAD for P136?	NO	This is primarily a matter for the BSAD consultation and P136 does not define the precise BSAD changes that would be required. There is therefore no sense in which a "different" treatment of BSAD can be proposed for P136 outside the consultation currently being progressed.

Q	Question	Response	Rationale
9.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?	YES	In practice, non-delivered acceptances will not typically set the cash-out price since the Transmission Company would have taken another acceptance to replace the non-delivered volume. The complexity of weeding out non-delivered acceptances is likely to be prohibitive and, in any case, if a non-delivered acceptance does set the cash-out price it is still likely to be a reasonable reflection of the marginal price.
10.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES	We support the principle, but this element is not included in the P136 proposal.
11.	What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		P136 will provide significantly improved incentives on market participants to tailor their contractual purchases to likely system conditions. In particular, at times of expected shortage, participants will have efficient incentives to ensure that they have covered the expected load of their customers and/or any generation shortfalls. This will promote security of supply by ensuring that the level of “insurance cover” against shortfalls is tailored to the expected balance between supply and demand on the system as a whole and the relative cost of meeting any imbalances. Likewise, at times of relative surplus, participants will have stronger incentives to avoid excessive length. Over the medium to long-term, the imbalance prices under P137 should send more efficient signals of the value of generating capacity thereby promoting security of supply.
12.	What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		Overall, there is little evidence to suppose that bid-offer pricing strategies will be materially altered by P136: the same balancing services will be required from the same providers, under the same competitive conditions and pricing will remain pay-as-bid as now. However, the fact that acceptances may set the marginal price could result in greater scrutiny of individual pricing decisions and this may lead to more cost-reflective offers and bids. Participants will also need to be more rigorous in the use of dynamic

Q	Question	Response	Rationale
			parameters – rather than bid/offer prices – to signal unavailability to the System Operator.
13.	What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?		Prices in <u>any</u> market should reflect the marginal costs of production (or the marginal value of consumption in times of scarcity). In theory, even a weighted average cash-out price should reflect the marginal cost of balancing as market participants alter their offer/bid prices to the expected level of marginal costs. In practice, however, offer and bid prices persistently understate the marginal costs of balancing. This effect is particularly pronounced at times of generation shortage. Moving to a marginal definition of the cash-out price – with appropriate tagging rules – ensures that cash-out prices more closely reflect the marginal cost of energy balancing.
14.	In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?	YES	More cost-reflective imbalance cash-out price signals will provide more efficient pricing signals to the short-term power market and – via inter-temporal arbitrage – across the forward curve. This will more efficiently signal the value of generating capacity at particular times, leading to efficient patterns of maintenance and more secure, reliable supplies of electricity.
15.	What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?		The modification is designed to improve the efficiency of the cash-out arrangements and associated markets. It is difficult to predict the impact on any particular party ex ante, because the change would be expected to change the pattern and level of prices at different times. However, by sending more efficient price signals across time, existing cross-subsidies will be driven out. To the extent that consumers bear increased costs (and it is by no means certain that they will), this will represent an efficient level of cost to provide for the increased reliability of the system. In short, whether or not the costs to individual parties increases or decreases is less relevant than improving the efficiency and reliability of the overall system.
16.	In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially	YES	P136 was in part motivated by a desire to allocate risks efficiently to those parties in a position to respond to and insure against those risks. The

Q	Question	Response	Rationale
	impact risk management?		current system of "collective risk sharing" via the smearing of pre-contracted reserve costs is providing inefficient price signals which are undermining the achievement of an efficient balance between demand and available generating capacity. The averaging of bid-offer prices also mutes price signals unduly. The overall result is an inefficient allocation of risks to market participants, which results in inefficient trading and investment decisions (eg, poor incentives to maintain plant or to forecast demand effectively). By allocating imbalance price risk more efficiently, the Modification should lead to the development of more efficient risk management tools (eg, increased use of options, demand side response, improved plant reliability, explicit insurance products etc)
17.	What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		P136 is about cost-reflective and efficient imbalance pricing and is not about recovering the cost of balancing actions taken by the System Operator (which are recovered separately under BSUOS). Moreover, RCRC is a residual cash flow that will have no impact on the behaviour of market participants. On the supply side, suppliers would expect to receive RCRC <i>irrespective of their actual contractual decisions</i> (largely because load will remain static and any individual supplier cannot directly influence the RCRC pot). RCRC will therefore have absolutely no impact on balancing behaviour of suppliers. On the generation side, generators lose RCRC if they trip or turn down and bid and offer prices will therefore reflect expected RCRC payments. However, as with suppliers, there will still be no influence on whether or how a generator contracts to balance their portfolio.
18.	In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?	NO	The credit cover arrangements should reflect the balancing and settlement arrangements in place. In this respect, it is no more or less an issue than under the current baseline. Should the arrangements prove inappropriate once P136 is implemented then appropriate changes or modifications can be considered at that point.

Q	Question	Response	Rationale
19.	In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		P137 improves the allocation of the risks of imbalance and will therefore reward those participants that manage their risks efficiently whether they are a generator or a supplier, large or small.
20.	What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?		P137 promotes the effective competition in the generation and supply by sending efficient cash-out price signals to the forward markets. This allocates risks efficiently between market participants and removes existing cross subsidies. This provides stronger incentives to manage risks efficiently and the greatest rewards will flow to the most efficient market participants. This will enhance competition greatly. In sending more efficient signals to the markets on the efficient maintenance of - and investment in - generating capacity and in enhancing the value of demand side response, the modification would also be expected to expand the range of risk management tools in the market and the range of participants (ie, by correctly valuing demand flexibility).
21.	Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES	See answers to 11 and 20.
22.	Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure? Please give rationale	NO	
23.	Are there any further comments on P136 that you wish to make?	NO	

P137

Q	Question	Response	Rationale
1.	Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?	YES	<p>The proposed definition of marginal prices is appropriate. The fact that the marginal price may be set by a small volume is not in itself a source for concern if that is the marginal action. At present, there seems little economic justification for broadening the marginal definition to a band of acceptances (although we would be open to future suggestions)</p> <p>The combination of NIV tagging and CADL is sufficient to prevent short-duration and locational system actions from setting cash-out prices. (This view is supported by the analysis performed by NGT in submitting P136.) In our view, the current tagging methodologies are sufficiently robust to remove anomalous "system" actions from the energy price stack. (The P137 offset and undo proposals are designed to ensure that energy actions are not tagged out unduly rather than removing any of the current tagging rules for system actions). Although any tagging methodology is inevitably going to be somewhat approximate, the benefits of adopting a marginal rather than average definition of the cash-out price in improving the overall cost-reflectivity of imbalance prices significantly outweighs the likely incidence of anomalous prices (particularly since anomalous prices can occur under the current rules). Tagging can also be improved in the light of future experience under P137 should that prove necessary.</p>
2.	As covered by bullet (2) in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non-firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?		<p>Estimates of "non-firm" volumes should be included in the real-time price calculation if they are available with a reasonable degree of accuracy. However, if this is not possible, then we would accept NIV derived in real time with only firm volumes.</p>

Q	Question	Response	Rationale
3.	Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) Allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)	(b)	It is important that prompt prices remain firm (and subject to amendment only for manifest errors). The fact that some volumes used to calculate the NIV can be more accurately calculated ex post is not a relevant justification for recalculating prices ex post and thereby undermining the prompt cash-out price signals. With accurate estimates used to calculate a real time price, we see no "moral" or other difficulties with going firm with the price in real-time, since the real-time price calculation will include an accurate, unbiased real-time estimate of the correct NIV.
4.	Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?	YES	The principle of firm pricing is very important. However, it would lack credibility if the resultant prices were the result of an obvious error (as opposed to prices set based on reasonable estimates of the volumes for some balancing services).
5.	Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Adjustment variables (BPA and SPA)) set out by P137?	YES	It is crucial that a consistent signal is sent to forward markets on the cost of energy balancing. Smearing the option fees associated with pre-contracted reserves over periods when it is available rather than those periods in which it is used, systematically understates the opportunity cost of using these reserves (ie, the spot prices that would obtain had the reserves not been pre-contracted). This understates the value of capacity for those generation resources that are not pre-contracted. This will gradually erode the reserve margin, which will increase the need to pre-contract for reserves which will - in turn - further depress spot prices at peak, leading to less available capacity and so on. Including the option fees in cash-out prices on those occasions that reserves are used sends an improved cash-out price signal on the value of generating capacity at peak.
6.	Do you wish to propose a different treatment of BSAD for P137?	N/A	We will respond as appropriate to the BSAD consultation.
7.	In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer	YES	In practice, non-delivered acceptances will not typically set the cash-out price since the Transmission Company would have taken another acceptance to

Q	Question	Response	Rationale
	Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?		replace the non-delivered volume. The complexity of weeding out non-delivered acceptances is likely to be prohibitive and, in any case, if a non-delivered acceptance does set the cash-out price it is still likely to be a reasonable reflection of the marginal price.
8.	Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?	YES	Offsetting volumes on individual units or for non-locational energy trades are associated either with the creation of reserve or to errors in forecasting the level of imbalance. Leaving these volumes in the reverse stack is likely to result in excessive tagging from the main stack. In particular, at times of shortage – even if NGT has “blown” through the offer stack offsetting and undo volumes could result in tagging out of the highest priced actions and therefore understate the marginal cost of imbalance.
9.	What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?		P137 will provide significantly improved incentives on market participants to tailor their contractual purchases to likely system conditions. In particular, at times of expected shortage participants will have efficient incentives to ensure that they have covered the expected load of their customers and/or any generation shortfalls. This will promote security of supply by ensuring that the level of “insurance cover” against shortfalls is tailored to the expected balance between supply and demand on the system as a whole and the expected cost of any imbalances. Likewise, at times of relative surplus, participants will have stronger incentives to avoid excessive length. Over the medium to long-term, imbalance prices under P137 should send more efficient signals of the value of generating capacity thereby promoting security of supply.
10.	What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?		Overall, there is little evidence to suppose that bid-offer pricing strategies will be materially altered by P137: the same balancing services will be required from the same providers, under the same competitive conditions and pricing will remain pay-as-bid as now. However, the fact that acceptances may set the marginal price could result in greater scrutiny of individual pricing

Q	Question	Response	Rationale
			<p>decisions and this may lead to more cost-reflective offers and bids. Participants will also need to be more rigorous in the use of dynamic parameters – rather than bid/offer prices – to signal unavailability to the System Operator.</p>
11.	<p>What effect, in your opinion, will P137 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?</p>		<p>Prices in <u>any</u> market should reflect the marginal costs of production (or the marginal value of consumption in times of scarcity). In theory, even a weighted average cash-out price should reflect the marginal cost of balancing as market participants alter their offer/bid prices to the expected level of marginal costs. In practice, however, offer and bid prices persistently understate the marginal costs of balancing. This effect is particularly pronounced at times of generation shortage. Moving to a marginal definition of the cash-out price – with appropriate tagging rules – ensures that cash-out prices more closely reflect the marginal cost of energy balancing.</p>
12.	<p>In your opinion, will P137 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?</p>	YES	<p>More cost-reflective imbalance cash-out price signals will provide more efficient pricing signals to the short-term power market and – via inter-temporal arbitrage – across the forward curve. This will more efficiently signal the value of generating capacity at particular times, leading to efficient patterns of maintenance and more secure, reliable supplies of electricity.</p>
13.	<p>What effect, in your opinion, will P137 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?</p>		<p>The modification is designed to improve the efficiency of the cash-out arrangements and associated markets. It is difficult to predict the impact on any particular party ex ante, because the change would be expected to change the pattern and level of prices at different times. However, by sending more efficient price signals across time, existing cross-subsidies will be driven out. To the extent that consumers bear increased costs (and it is by no means certain that they will), this will represent an efficient level of cost to provide for the increased reliability of the system. In short, whether or not the costs to individual parties increases or decreases is less relevant than improving the efficiency and reliability of the overall system.</p>

Q	Question	Response	Rationale
14.	In your opinion, does P137 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?	YES	P137 was in part motivated by a desire to allocate risks efficiently to those parties in a position to respond to and insure against those risks. The current system of "collective risk sharing" via the smearing of pre-contracted reserve costs is providing inefficient price signals which are undermining the achievement of an efficient balance between demand and available generating capacity. The averaging of bid-offer prices also mutes price signals unduly. The overall result is an inefficient allocation of risks to market participants, which results in inefficient trading and investment decisions (eg, poor incentives to maintain plant or to forecast demand effectively). By allocating imbalance price risk more efficiently, the Modification should lead to the development of more efficient risk management tools (eg, increased use of options, demand side response, improved plant reliability, explicit insurance products etc)
15.	What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?		P137 is about cost-reflective and efficient imbalance pricing and is not about recovering the cost of balancing actions taken by the System Operator (which are recovered separately under BSUOS). Moreover, RCRC is a residual cash flow that will have no impact on the behaviour of market participants. On the supply side, suppliers would expect to receive RCRC <i>irrespective of their actual contractual decisions</i> (largely because load will remain static and any individual supplier cannot directly influence the RCRC pot). RCRC will therefore have absolutely no impact on balancing behaviour of suppliers. On the generation side, generators lose RCRC if they trip or turn down and bid and offer prices may therefore reflect expected RCRC payments. However, as with suppliers, there will still be no influence on whether or how a generator contracts to balance their portfolio.
16.	In your opinion, is Credit Cover under P137 any more of an issue than under the current arrangements?	NO	The credit cover arrangements should reflect the balancing and settlement arrangements in place. In this respect, it is no more or less an issue than under the current baseline. Should the arrangements prove inappropriate

Q	Question	Response	Rationale
			once P137 is implemented then appropriate changes or modifications can be considered at that point.
17.	In your opinion, what will the likely impact of P137 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?		P137 improves the allocation of the risks of imbalance and will therefore reward those participants that manage their risks efficiently whether they are a generator or a supplier, large or small.
18.	What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?		P137 promotes the effective competition in the generation and supply by sending efficient cash-out price signals to the forward markets. This allocates risks efficiently between market participants and removes existing cross subsidies. This provides stronger incentives to manage risks efficiently and the greatest rewards will flow to the most efficient market participants. This will enhance competition greatly. In sending more efficient signals to the markets on the efficient maintenance of - and investment in - generating capacity and in enhancing the value of demand side response, the modification would also be expected to expand the range of risk management tools in the market and the range of participants (ie, by correctly valuing demand flexibility).
19.	Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES	See answers to 9 and 18.
20.	Overall, do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)	YES	See answer to 19.
21.	Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?	NO	

Q	Question	Response	Rationale
	Please give rationale		
22.	Are there any further comments on P137 that you wish to make?	NO	

P136_P137_ASS_021 – Scottish and Southern Energy

P136

Dear Sirs,

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

In relation to the twenty three questions listed in the Consultation Paper, contained within your note of 21st October 2003 concerning Modification Proposal P136, we have the following comments to make:-

Please note our response to any of the following questions should not be construed to lend support whatsoever to this Modification.

Q1 Do you agree with the definition of the marginal price proposed by the PSMG for P136? If not, what definition of the marginal price would you propose?

As has been note in our response to P144, it is not 100% clear that ALL system balancing actions (based on the P18 CADL approach) will be excluded from NIV tagging and therefore some system balancing actions could feed through to the energy imbalance price. We believe that in light of this the definition of marginal price for P136 has to explicitly exclude ALL NIV and CADL tagging actions; i.e. those considered to be for system balancing purposes.

Q2 As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?

Given that the proposition is that the marginal price should explicitly reflect those actions taken for electricity balancing purposes, we believe that the energy imbalance price should be derived from the latest information and that this should be refined over time as volumes and associated information becomes more accurate. We believe, given that the principle of 'reconciliation' between initial and final data is well established within the Code (in some case months after the settlement period/day in question) that there is no reason why this should not be applied in this case. Clearly, in our view, there should be no compromise between accuracy of the price and the timing of its publication. For this reason we believe that if an action cannot be determined within the timeframe currently taken to publish the information to the market that it should be assumed to be a system balancing action and specifically excluded from the energy imbalance price. This is an appropriate approach (akin to that applied with regard to CADL) for ensuring that the broad signal is given to the market, whilst ensuring that uncertain prices are not falsely fed through to the market, which would leave to a perverse market signal as the market responded to a system (rather than an electricity) balancing action.

Q3 Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)

"(a) allow changes to the Energy Imbalance Price over time" is our preferred option. As noted in our response to Q2, given that the principle of 'reconciliation' between initial and final data is well established within the Code we see no reason why this should not be applied in this case or be limited to 'exceptional' circumstances (as envisaged in option (b)).

Q4 Do you support the approach of allowing error correction of BSAD under exceptional circumstances only?

As noted in our response to Q2, given that the principle of 'reconciliation' between initial and final data is well established within the Code we support the approach of allowing error correction of BSAD under ALL circumstances and see no reason why it should just be limited to 'exceptional' circumstances.

Q5 Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P136 (including the treatment of option fees)?

We shall provide a response to the BSAD Consultation in due course.

Q6 Do you support the proposed approach (being considered as a potential alternative to P136) whereby BSAD is removed from the Energy Imbalance Price calculation in entirety?

There maybe merit in this approach.

Q7 Do you support the usage of option fees (as currently reflected in the Buy and Sell Price Price Adjustment variables (BPA and SPA)) set out by P137, for P136?

No.

Q8 Do you wish to propose a different treatment of BSAD for P136?

We shall provide a response to the BSAD Consultation in due course.

Q9 In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?

No. The marginal energy imbalance price should only reflect those delivered BOAs taken for electricity balancing purposes.

Q10 Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?

No.

Q11 What effect, in your opinion, will P136 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?

We believe that the incentives should be on each Party to 'insure' themselves by forward contracting in sufficient volumes to cover peak periods, with the Transmission Company undertaking the residual balancing in real time, i.e. striking an efficient balance between the two extremes.

We believe that the current pricing mechanism provides adequate price signals which adequately incentives Parties to cover their own positions, and therefore do not believe that the extreme price signals that will arise from this Modification are either efficient, necessary or appropriate.

Furthermore, we believe that this Modification, with its inherent risk of exposure to extreme Energy Imbalance Price will, for example, at times of system stress where the system is short, and there is increased likelihood of extreme (i.e. high) System Buy Price, incentivising Parties to withhold generation in order to avoid the risks associated with plant trip (potentially negating, for example, many of the benefits that are envisaged from the introduction of a Maximum Generation Service).

Therefore we believe that this Modification will have the effect of endangering (rather than enhancing or improving) the security of supply situation.

Q12 What effect, in your opinion, will P136 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?

For the reasons we have outlined briefly in Q11 above (and detailed extensively in our response to the P135 consultation which we would refer you too), we believe given the significant increase in risk (and associated cost that will inevitably be passed on by the market to customers) that P136 will lead to parties self insuring (resulting in a reduction in plant available to the Transmission Company). This will have the effect of increasing the Bid-Offer Prices being 'bid' into the Balancing Mechanism in order to adjust the Bid-Offer prices to reflect the increase in risk in the exposure to imbalance charges. This in turn may have the circular effect of increasing the marginal Energy Imbalance Price, which in turn raises Bid-Offer prices submitted into the Balancing Mechanism.

Q13 What effect, in your opinion, will P136 have on the cost reflectivity of the (main) Energy Imbalance Price, and in turn what impact do you believe this will have on the targeting of the costs incurred in energy balancing the system at those in imbalance?

Given that it is not possible to apportion the cost of each individual MWh taken to the individual Party that incurred that cost and as a consequence of there being imperfect information and the inability to differentiate between system and electricity balancing actions, we believe that an average methodology is a more cost reflective methodology than a marginal price methodology.

Q14 In your opinion, will P136 have an impact on the prices emerging from the forwards and spot markets, if so why? If not, why not?

For the reasons already outlined above, we believe that this Modification will have a harmful effect on forward and spot market prices and that this will be reflected in prices to end consumers.

Q15 What effect, in your opinion, will P136 have on the incremental costs incurred by certain types of Party, and what consequential effect will this have on the costs passed back to consumers?

We believe that this Modification will impact adversely on costs which, in a market, will lead to increased prices to consumers. As an aside, in respect of section 14 of the consultation document and the matter of market liquidity, as we outlined above, we believe that market liquidity will be reduced as parties self insure.

Q16 In your opinion, does P136 change the level of exposure to risk? In your opinion, how does this consequentially impact risk management?

Yes. We believe that this Modification will increase the potential for extreme (i.e. high) Energy Imbalance Prices (as a result of using the marginal energy balancing action) which in turn increases the risk for Parties from exposure to these extreme Energy Imbalance Price. We believe that a marginal imbalance price could reach extreme levels which could have the effect of bankrupting a Party exposed to the imbalance price, and therefore impose such an extreme risk that it cannot be (adequately) factored into the contract / Bid-Offer prices or the Credit arrangements that currently exist within the Code.

Furthermore, we believe that this risk (of exposure to extreme marginal prices) is unmanageable, because there are currently no insurance products available to mitigate the risk of exposure to imbalance charges resulting from a failure of some description after Gate Closure. In addition, we believe that the potential for more extreme Energy Imbalance Prices may prevent the development of such products.

Q17 What effect, in your opinion, will P136 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?

We concur with the comments regarding the distortion of competition that will arise if this Modification proceeds as some Parties will have disproportion benefits (from the RCRC payments) whilst others, such as single site generators that fails, will not receive any benefits. Such an approach is discriminatory.

Q18 In your opinion, is Credit Cover under P136 any more of an issue than under the current arrangements?

Yes. We believe that a major issue, should this Modification be approved, will be its impact on the credit arrangements. It will dramatically raise the likelihood of Parties going out of business. It will introduce significantly increased risk into the energy imbalance equations (which are more than under the current arrangements).

Q19 In your opinion, what will the likely impact of P136 be on certain types of Party (for example, large portfolio player, single site generator, small Supplier)?

We believe that this Modification will have a damaging effect on many types of Parties, depending on their particular circumstances, and that this will have a distorting effect on competition.

Q20 What effect, in your opinion, will P136 have in relation to Applicable BSC Objective 3(c)?

We believe that this Modification, in so clearly leading to the distortion of competition, cannot be said to better achieve the Applicable BSC Objective 3(c).

Q21 Do you believe Proposed Modification P136 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)

No, for the reasons detailed in the preceding answers .

Q22 Does P136 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?

We believe that the impact on credit cover and the competition distorting effect of this Modification needs to be examined in detail as part of the Assessment Procedure.

Q23 Are there any further comments on P136 that you wish to make?

None at this time.

Regards

Garth Graham, Scottish and Southern Energy plc

P137

Dear Sirs,

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

In relation to the twenty two questions listed in the Consultation Paper, contained within your note of 21st October 2003 concerning Modification Proposal P137, we have the following comments to make:-

Please note our response to any of the following questions should not be construed to lend support whatsoever to this Modification.

Q1 Do you agree with the definition of the marginal price proposed by the PSMG for P137? If not, what definition of the marginal price would you propose?

As has been noted in our response to P144, it is not 100% clear that ALL system balancing actions (based on the P18 CADL approach) will be excluded from NIV tagging and therefore some system balancing actions could feed through to the energy imbalance price. We believe that in light of this the definition of marginal price for P136 has to explicitly exclude ALL NIV and CADL tagging actions; i.e. those considered to be for system balancing purposes.

Q2 As covered by section 2 in the consultation document, would you prefer to have the NIV derived in real time from all possible balancing actions with estimates of non firm volumes, or would you prefer to have the NIV derived in real time with only firm volumes?

Given that the proposition is that the marginal price should explicitly reflect those actions taken for electricity balancing purposes, we believe that the energy imbalance price should be derived from the latest information and that this should be refined over time as volumes and associated information becomes

more accurate. We believe, given that the principle of 'reconciliation' between initial and final data is well established within the Code (in some case months after the settlement period/day in question) that there is no reason why this should not be applied in this case. Clearly, in our view, there should be no compromise between accuracy of the price and the timing of its publication. For this reason we believe that if an action cannot be determined within the timeframe currently taken to publish the information to the market that it should be assumed to be a system balancing action and specifically excluded from the energy imbalance price. This is an appropriate approach (akin to that applied with regard to CADL) for ensuring that the broad signal is given to the market, whilst ensuring that uncertain prices are not falsely fed through to the market, which would leave to a perverse market signal as the market responded to a system (rather than an electricity) balancing action.

Q3 Of the three options set out in regards to the stability of the Energy Imbalance Price (section (3) in the consultation document), which do you favour, and why? ((a) allow changes to the Energy Imbalance Price over time, (b) freeze the balancing action data at real time, (c) freeze the Energy Imbalance Price at real time)

"(a) allow changes to the Energy Imbalance Price over time" is our preferred option. As noted in our response to Q2, given that the principle of 'reconciliation' between initial and final data is well established within the Code we see no reason why this should not be applied in this case or be limited to 'exceptional' circumstances (as envisaged in option (b)).

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Q5 Noting the Transmission Company BSAD consultation, what utilisation of BSAD would you prefer to see for P137 (including the treatment of option fees)?

We shall provide a response to the BSAD Consultation in due course.

Q6 Do you wish to propose a different treatment of BSAD for P137?

We shall provide a response to the BSAD Consultation in due course.

Q7 In your opinion, and given the technical complexity involved, is it appropriate for a non delivered Bid – Offer Acceptance (or BSAD balancing action) to set the marginal Energy Imbalance Price?

No. The marginal energy imbalance price should only reflect those delivered BOAs taken for electricity balancing purposes.

Q8 Do you support the principle of BM Unit Undo Tagging and BSAD Offsetting Tagging as a part of the NIV derivation?

No.

Q9 What effect, in your opinion, will P137 have on Applicable BSC Objective 3(b), particularly with respect to incentives to balance and any consequential effect on security of supply?

We believe that the incentives should be on each Party to 'insure' themselves by forward contracting in sufficient volumes to cover peak periods, with the Transmission Company undertaking the residual balancing in real time, i.e. striking an efficient balance between the two extremes. We believe that the current pricing mechanism provides adequate price signals which adequately incentives Parties to cover their own positions, and therefore do not believe that the extreme price signals that will arise from this Modification are either efficient, necessary or appropriate.

Furthermore, we believe that this Modification, with its inherent risk of exposure to extreme Energy Imbalance Price will, for example, at times of system stress where the system is short, and there is increased likelihood of extreme (i.e. high) System Buy Price, incentivising Parties to withhold generation in order to avoid the risks associated with plant trip (potentially negating, for example, many of the benefits that are envisaged from the introduction of a Maximum Generation Service).

Therefore we believe that this Modification will have the effect of endangering (rather than enhancing or improving) the security of supply situation.

Q10 What effect, in your opinion, will P137 have on Parties behaviour in the Balancing Mechanism, specifically with reference to Bid – Offer pricing strategies?

For the reasons we have outlined briefly in Q9 above (and detailed extensively in our response to the P135 consultation which we would refer you too), we believe given the significant increase in risk (and associated cost that will inevitably be passed on by the market to customers) that P136 will lead to parties

self insuring (resulting in a reduction in plant available to the Transmission Company). This will have the effect of increasing the Bid-Offer Prices being 'bid' into the Balancing Mechanism in order to adjust the Bid-Offer prices to reflect the increase in risk in the exposure to imbalance charges. This in turn may have the circular effect of increasing the marginal Energy Imbalance Price, which in turn raises Bid-Offer prices submitted into the Balancing Mechanism.

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price could reach extreme levels which could have the effect of bankrupting a Party exposed to the imbalance price, and therefore impose such an extreme risk that it cannot be (adequately) factored into the contract / Bid-Offer prices or the Credit arrangements that currently exist within the Code.

Furthermore, we believe that this risk (of exposure to extreme marginal prices) is unmanageable, because there are currently no insurance products available to mitigate the risk of exposure to imbalance charges resulting from a failure of some description after Gate Closure. In addition, we believe that the potential for more extreme Energy Imbalance Prices may prevent the development of such products.

Q15 What effect, in your opinion, will P137 have on the RCRC, if any, and what influence do you think this will have on the (balancing) behaviour of Parties?

We concur with the comments regarding the distortion of competition that will arise if this Modification proceeds as some Parties will have disproportion benefits (from the RCRC payments) whilst others, such as single site generators that fails, will not receive any benefits. Such an approach is discriminatory.

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We believe that this Modification will have a damaging effect on many types of Parties, depending on their particular circumstances, and that this will have a distorting effect on competition.

Q18 What effect, in your opinion, will P137 have in relation to Applicable BSC Objective 3(c)?

We believe that this Modification, in so clearly leading to the distortion of competition, cannot be said to better achieve the Applicable BSC Objective 3(c).

Q19 Do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)

No, for the reasons detailed in the preceding answers .

Q20 Overall do you believe Proposed Modification P137 better facilitates the achievement of the Applicable BSC Objectives? Please give rationale and state which objective(s)

No, for the reasons detailed in the preceding answers .

Q21 Does P137 raise any issues that you believe have not been identified so far and that should be progressed as part of the Assessment Procedure?

We believe that the impact on credit cover and the competition distorting effect of this Modification needs to be examined in detail as part of the Assessment Procedure.

Q22 Are there any further comments on P137 that you wish to make?

None at this time.

Regards

Garth Graham, Scottish and Southern Energy plc