

# Assessment Procedure Consultation Responses

## P314 'Reduction in PAR from 500MWh to 350MWh'



This Assessment Procedure Consultation was issued on 16 September 2014, with responses invited by 30 September 2014.

What stage is this document in the process?

- 01 Initial Written Assessment
- 02 Definition Procedure
- 03 Assessment Procedure
- 04 Report Phase

### Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
InterGen (UK) Ltd.	3/0	Generator
Good Energy	1/0	Supplier, ECVNA, MVRNA
SmartestEnergy	1/0	Supplier
National Grid	1/0	Transmission Company
GDF SUEZ	14/0	Generator, Supplier
RWE Supply and Trading GmbH	10/0	Generator, Supplier, Interconnector User, ECVNA, MVRNA
VPI Immingham	1/0	Generator
Co-Operative Energy	1/0	Supplier
Drax Power Limited	2/0	Generator, Supplier
Flow Energy Limited	1/0	Supplier
ESB	1/0	Generator
Centrica	15/0	Generator, Supplier, Interconnector User, Non Physical Trader, ECVNA, MVRNA
SSE plc	8/0	Generator, Supplier, Interconnector User
ScottishPower	6/0	Generator, Supplier, Non Physical Trader, ECVNA, MVRNA, Supplier Agent
First-Utility	1/0	Supplier
EDF Energy	10/0	Generator, Supplier, Non Physical Trader, ECVNA, MVRNA
DONG Energy Wind Power UK	1/0	Generator
Utilita Energy Limited	1/0	Supplier

Question 1: Do you agree with the Workgroup's initial majority view that the P314 **alternative solution** would better facilitate the Applicable BSC Objectives compared with the proposed solution and the current baseline, and should therefore be approved?

## Summary

Yes	No	Neutral/No Comment	Other
9	8	0	1

## Responses

Respondent	Response	Rationale
InterGen (UK) Ltd.	No	<p>Whilst InterGen agrees that the P314 Alternative Solution better facilitates Applicable Objectives (b) and (c) compared to the current baseline, we believe that those Objectives are even better supported by the proposals set out under P304 (and it is essential that P314 is considered in light of those proposals, as well as against the current baseline, such is the similar nature of these modifications). Knowing that P305 intends to drive towards a single marginal cashout price by 2018, InterGen believes that ahead of this adequate transitional arrangements are required to allow the market to respond (in terms of hedging, balancing, modelling and ultimately, investing). InterGen believes that the proposals set out under P304 (PAR 250MWh) achieve this smooth transition, whilst also allowing market price signals to respond to changes in cashout which will bring forward investment sooner –ultimately to the benefit of consumers in the long term (to counteract forecast system stress at the end of this decade).</p> <p>InterGen does not understand why P304 is considered not appropriate compared to P314 when the difference in modelled impacts between the two are minimal and would move to reject P314 and its Alternative, in favour of accepting P304.</p>
Good Energy	No	<p>The alternative solution is not better than the current baseline.</p> <p>However, the proposed solution is better than the alternative solution.</p> <p>We consider P314 to be neutral with regard to all Applicable BSC Objectives other than Objective (c) which is not better facilitated by P314. P314 does not better facilitate Objective (c) because the P314</p>

Respondent	Response	Rationale
		<p>Workgroup analysis shows that Independent Suppliers and Renewable suppliers (small suppliers) are disadvantaged compared to Vertically Integrated Parties as they are more likely to be impacted by the sharpened imbalance prices, and insufficient time would be provided for those most affected to amend their systems, processes and hedging strategies to cope with the change.</p> <p>P314 is neutral with regard to the other Applicable BSC Objectives because they are not affected by P314. [For example Objective (d) is not affected because P314 will not improve efficiency in undertaking the balancing of supply and demand.]</p>
SmartestEnergy	Yes	This modification introduces greater marginality at a more gradual pace, which we agree with.
National Grid	Yes	<p>For the reasons set out in our P304 Proposal and consultation response, we believe that a lower PAR volume to be used in the imbalance price calculation will better facilitate Applicable Objectives (b) and (c).</p> <p>We agree with the Workgroup's view that these objectives would be better facilitated under the P314 alternative than the proposed solution since the earlier implementation date allows those benefits to be realised sooner under the alternative. Furthermore, since concerns for system scarcity are greater over winter months we believe it is important that the more efficient price signal is implemented ahead of or soon after November 2014. In terms of the question of what constitutes a 'winter period', given that the winter product in the forward market spans the inclusive period October to March and the Triad season runs November to February, we consider it appropriate to incorporate November 2014 in the implementation of a reduced PAR solution.</p>
GDF SUEZ	No	<p>GDF SUEZ preference with respect to the BSC modifications P314 and P304 is as follows:</p> <ol style="list-style-type: none"> <li>1. Retain the status quo</li> <li>2. Implement P314 Alternative</li> <li>3. Implement P314</li> <li>4. Implement P304</li> </ol> <p>Ofgem's concern set out in the EBSCR is that imbalance prices are not creating the correct signals</p>

Respondent	Response	Rationale
		<p>to allow the market to balance, leading to increased risks to future security of supply. More marginal cashout prices are meant to be a 'stepping stone' to the more radical reforms to the cashout arrangements set out in P305</p> <p>GDF SUEZ believes that P314 and its alternative will incentivise over contracting to avoid exposure to the more marginal system buy price. It will not create the signals to allow the market to balance, instead the market will be 'long' and longer than it is already. Creating incentives to that encourage parties to buy more than they need is not efficient or economic (objective b). GDF SUEZ therefore sees both P314 and P314A as a backward steps which lack coherence when set against the concerns set out in the EBSCR.</p>
RWE Supply and Trading GmbH	Yes	The proposed modification better meets the applicable code objectives when compared with the current baseline. In particular the proposal will better meet objective C through the introduction of more marginal cash out prices for this winter and is consistent with the direction of travel indicated in the Electricity Balancing significant code review.
VPI Immingham	Yes	Yes, we agree that the alternative solution with no sunset clause and an earlier implementation date better facilitates the applicable BSC objectives as it will sharpen the price signal sooner and therefore better deliver the BSC objectives in Winter 2014/15. In addition, removing the sunset clause will maintain this improved price signal until such a date that it is changed by a further modification, e.g. P305.
Co-Operative Energy	No	No, we believe implementation of P314 would better facilitate relevant BSC objective(c) (promoting effective competition in the generation and supply of electricity). This is due to the fact that the lower PAR proposed in this Modification (350MWh as opposed to 250MWh as contained in P304) will, if implemented, result in a lesser exposure to imbalance risk for smaller non-vertically integrated suppliers. This is due to the fact that imbalance will be calculated on the basis of a less marginally priced PAR volume. Energy suppliers are, as a rule, highly unlikely to find themselves in a position where they are not exposed to imbalance risk in any given period due to the near impossibility of predicting with one hundred per cent accuracy what the energy usage of their customer portfolio is likely

Respondent	Response	Rationale
		<p>to be. Large vertically integrated suppliers have generation assets which can be used to fine tune their near-term imbalance exposure, smaller suppliers generally do not. It can therefore be seen that reduction of PAR to result in a more marginal cash-out price will potentially have a greater impact on smaller suppliers and thus negatively affect their ability to provide competition to the large vertically integrated suppliers. Furthermore, the current dual-priced cash-out mechanism creates an asymmetric cashout risk to market participants in that the charge for being short (System Buy Price) will almost always be higher than the payment for being long (System Sell Price) (in certain uncommon situations the two prices can be the same). It is our view that this dual priced cash-out mechanism creates a strong incentive towards vertical integration as it makes it worthwhile to hold generation back from the market during tight network periods in order to use this as a hedge against high imbalance prices at these times. Introduction of a single-priced cash-out mechanism would reduce this incentive but as this change is not a feature of P314 (or P304) we believe that, if a reduction to PAR is to be implemented, it would make more sense from a risk and competition point of view (and given the issues raised above) for this to be reduced to 350MWh rather than 250MWh to allow careful monitoring of effect of the new PAR level on imbalance prices and the market as a whole before any further reduction is made.</p>
Drax Power Limited	Yes	<p>Both the advantages and disadvantages raised by stakeholders (and detailed in the Assessment consultation) associated with P314 are valid in our opinion. Both these advantages and disadvantages are likely to be small. The advantages and disadvantages will tend to be lower for the proposed solution relative to the alternative solution. As such, there is not a lot to choose between the two options, but on balance we believe the alternative solution is marginally better than the Proposed solution.</p>

Respondent	Response	Rationale
Flow Energy Limited	No	<p>We do not agree that the P314 alternative solution would better facilitate the BSC applicable objectives compared with the current baseline, but may be slightly preferable to the other proposed solutions.</p> <p>In relation to BSC objective C (competition in the generation, supply, purchase and sale of electricity), the proposed alternative will expose all parties to increased imbalance costs. However the analysis included in this consultation demonstrates the impact will be unequal among trading parties with distributional—and therefore competitive—distortions.</p> <p>The effect of reducing PAR will be, in all instances, a disproportionate increase in imbalance charges to small, independent suppliers- this effect is particularly acute in the Domestic supply sector. Our analysis of the impact of p314 is that, for the data we have available, Flow Energy's net imbalance charges would have approximately doubled. Reducing the PAR to 250 as per the original proposed solution (P304) will increase Flow Energy's net imbalance charges by a further 60%</p> <p>Given the way in which RCRC functions this will have the effect of subsidising the larger, vertically integrated energy suppliers at the expense of the smaller, independent suppliers. This will be acting directly to contrary to BSC objective C. The only advantage of p314 over p304 is that the negative impacts are somewhat lessened. There are still, however, serious detriments to the small, independent, supply sector when compared to the baseline</p>

Respondent	Response	Rationale
ESB	Partially	<p>We agree that P314 alternative solution would better facilitate the Applicable BSC Objectives compared with the proposed solution and current baseline. Reducing PAR ensures the market receives the correct signals with regards to balancing positions and helps increase security of supply, thus better fulfilling Applicable BSC Objective B when compared to the baseline. Although this would be an improvement over the baseline we do not feel that it meets the Applicable BSC Objectives as well as the changes proposed under P304.</p> <p>The introduction of P314 may also go some way to better facilitating Applicable BSC Objective C as it may lead to increased liquidity in the forward markets and encourage increased participation of flexible capacity as parties look to balance positions prior to gate closure. Again however, P314 would not meet the Applicable BSC Objectives as well as the changes proposed under P304.</p> <p>We are in agreement that the alternative solution would be favourable over the proposed solution as it is important that the relevant price signals are in place at the beginning of the winter period. Any delay in implementation may lead to an increased risk to system security, especially as system margins are forecast to be tight over the winter period.</p>
Centrica	Yes	<p>We prefer the alternative solution as we believe that if a modification betters the Applicable Objectives it should be implemented as soon as possible taking into account the mitigating market circumstances. We can see no reason why this modification should be delayed until 2nd January and therefore we support the implementation date contained in the alternative solution of 31st October 2014 (subject to 10 working days' notice).</p>
SSE plc	Yes	<p>SSE believes that the value of flexibility and risk are not sufficiently priced into the energy market currently, dampening price signals and undermining the credibility of cash-out as an incentive price. This has resulted in a lack of investment in all generation and particularly flexible capacity as well as the imposition of higher balancing costs on the System Operator, at a time when such capacity is needed to cope with greater uncertainty. A weak cash-out has dampened incentives to trade, thereby impacting the efficiency and liquidity of forward markets.</p> <p>Reducing the PAR value will lessen the impact of</p>

Respondent	Response	Rationale
		<p>volume weighting on the price formulation, particularly at times of system stress, thus improving the price signal for flexibility and incentives for parties to forward trade in order avoid imbalance exposure. This should both help to reduce the number of actions required by the System Operator to balance the system and help to deliver a more efficient system management in support of objective b); and should encourage greater forward trading activity and liquidity to reduce exposure to expensive cash-out prices, as well as better allocating cost of resolving energy imbalances to those creating them, thus supporting objective c).</p> <p>Reducing the PAR value to 350MWh for this Winter is an incremental improvement on the current baseline and a step in the right direction, although SSE would like to see a fully marginal price to be implemented at the earliest opportunity to properly reflect value and risk. It is a helpful step in signalling intent to implement policy reform proposals arising from EBSCR, giving the market greater certainty that the wider policy objectives will be followed through.</p> <p>We share the concerns of some members of the working group that reducing the PAR value to a more marginal value, whilst retaining a dual system price structure, does have the potential to increase the distributional effects of the price spread. However, notwithstanding this concern, we believe that the distributional effects demonstrated through historic analysis thus far are not excessive and that in any event they would reduce as forward behaviour changes to respond to an increasing price risk.</p> <p>On balance therefore, we agree that the modification proposal will better facilitate objectives b) and c).</p>
ScottishPower	Yes	<p>Proposal P314 strengthens the signal to Parties to balance their positions before Gate Closure by making the main imbalance price signal more reflective of the marginal actions taken to balance the system. The alternative solution recognises that there is an issue of scarcity in Winter 2014/15 and reflects this scarcity across the full Winter period. Therefore P314 alternative solution better meets the Applicable Objective (b) than the proposed solution. The step-change from PAR500 to PAR350 has been</p>



Respondent	Response	Rationale
		demonstrated through ELEXON's analysis to have an impact on Parties' imbalance cashflows, particularly those of smaller suppliers. However, the distributional effect at times of scarcity is significantly less than that under P304. Therefore, we believe that both the proposed solution and the alternative solution better facilitate objective (c). We believe that both solutions are neutral against Objectives (a), (d) and (f) and on balance overall better facilitate the Applicable BSC Objectives than the current baseline. The alternative solution better meets the Applicable Objectives than the proposed solution.
First-Utility	No	We believe that bringing the date forward does not allow enough time for parties (that will be impacted the most in terms of risk) to respond by adjusting their trading and financial positions.
EDF Energy	Yes	We agree with the Workgroup's majority view that the P314 alternative solution (i.e. PAR 350 with an implementation date of 31 October 2014) would better facilitate the Applicable BSC Objectives, for the same reasons as given by the workgroup.
DONG Energy Wind Power UK	No	<p>DONG Energy believes that neither the P304 modification proposal nor the P314 alternative solution would better facilitate the applicable BSC Objectives. Whilst DONG Energy understand the capacity related concerns raised under EBSCR, regarding security of supply and availability of flexible and/or fast response plant during periods of tight margin, we remain of the view that any reduction in PAR volume from the existing level would not deliver the changes expected to adequately address these market related issues.</p> <p>In addition, we believe this proposed change (be it P304 or P314) will impose higher and disproportionate costs on to certain market participants and could conceivably exacerbate market length by incentivising more contracting to avoid exposure to more marginal cash-out prices.</p> <p>Our key reasons are as follows:</p> <p>DONG Energy is not sufficiently convinced that modifying the PAR volume, to some lesser value, will necessarily drive efficiency in the BM mechanism and system as a whole (in line with BSC objective B) and that there will be a subsequent material change towards investment in more flexible and fast response plant. It may, for example, delay</p>

Respondent	Response	Rationale
		<p>planned mothballing of certain flexible plant, however, we believe that other regulatory reforms such as the Capacity Mechanism may do a similar job in supporting the provision of necessary reserve requirements in the short term market and/or periods of system stress. We suggest that this mechanism should be reviewed in the context of its overall effectiveness towards addressing these EBSCR capacity concerns, along with the effectiveness of other measures such as DSBR and SBR. Please also see our additional related comments under Question 13.</p> <p>It is true that a lower PAR level will result in more marginal prices and therefore cost reflective balancing actions. However, DONG Energy believe that the existing arrangements do sufficiently incentivise BSC parties to balance their positions and does not believe this 'sharper or marginal cash-out price' will improve overall forecasting accuracy for those groups of market participants who cannot precisely predict demand and/or have a variable fuel source. Generators with a variable fuel source will always be faced with a certain level of imbalance and improved or more accurate forecasting, whether it is demand or production (and thereby reduced imbalance) are not correlated to higher cash-out imbalance prices. We believe this higher imbalance price will simply act to increase and target, disproportionately, costs and risk on the above mentioned participants, along with imposing subsequent higher credit cover requirements. Unlike some market participants we do not have the benefits of a vertical integration to enable more effective hedging approaches to help manage this risk. We therefore believe this poses a negative impact on both BSC objectives B and C.</p>
Utilita Energy Limited	No	<p>We do not agree that the P314 alternative solution would better facilitate the BSC applicable objectives compared with the current baseline.</p> <p>In relation to BSC objective B (efficient and economic operation of the transmission system), we believe bringing forward the implementation of a more marginal PAR will have no effect on security of supply this coming winter. With no ability to alter NHH demand in the short term, suppliers cannot respond to marginal price signals. Generators will probably already have made their decisions to be available and higher cash-out prices will not induce</p>

Respondent	Response	Rationale
		<p>them to return mothballed stations.</p> <p>More generally there is a flawed assumption behind the current spate of cash-out modifications, including P314 in both formulations, as generation remuneration, which would still be based on pay as bid, would not be affected. A generator who spills when the system is short would still receive the MIDS price, whereas a generator who spills when the system is long would receive a lower price than under the baseline. There would be less incentive to over-generate and no impact on security of supply. Either way, it would not know with any certainty which circumstance would apply.</p> <p>As for suppliers, most suppliers, and in particular independent suppliers, will have already hedged their positions for this coming winter to the extent allowed in the market, and changing PAR is merely exposing them to an increase in ex-post costs which are difficult to forecast and price into contracts. They are simply not in a position to respond to the prices generated by the changes in PAR.</p> <p>Decreasing PAR should have the effect of incentivising market participants to go longer than they otherwise would have as the relative risks under dual pricing would be amplified. It is possible that to avoid additional imbalance costs under P314 market participants will make inefficient contracting decisions and increase the cost to consumers of managing erratic spill volumes by the SO.</p> <p>It is worth noting P314 and P304 are not the only proposed actions being taken to ensure system security this winter; National Grid has already brought forward its SBR service. This will have a much greater effect on security of supply than a largely untested and hurried change to cash-out. It too will result in an increase in costs to customers, so there is a danger of doubling up.</p> <p>Overall, then, we believe the impact of the alternative (and the original) under objective B will be detrimental, especially given that commercial decisions by suppliers have already been made based on a different baseline.</p> <p>In relation to BSC objective C (competition in the generation, supply, purchase and sale of electricity), the proposed alternative will expose all parties to increased imbalance costs. However the analysis included in this consultation demonstrates the</p>

Respondent	Response	Rationale
		<p>impact will be unequal among trading parties with distributional—and therefore competitive—distortions.</p> <p>Smaller suppliers, especially independent non-domestic suppliers, and renewables generators will be more exposed to cash-out than their larger competitors. This is most notable during times of system stress as identified in the analysis of changing PAR values, where on average smaller non domestic suppliers saw some of the greatest impacts during most system stress events which were analysed.</p> <p>In turn larger parties will benefit from greater income from RCRC as imbalance charges are higher and the mechanism redistributes charges back to players with greater volumes. Smaller parties systematically see higher imbalance charges as it is more difficult for them to forecast imbalance without diversified portfolios, compounded by lower customer numbers, fewer forecasting resources and less customer data, especially given most domestics are still using NHH meters. As a consequence the RCRC mechanism effectively ends up redistributing these surcharges back to the larger players. This creates a significant competitive distortion under the current dual pricing system, which Ofgem seemed to have recognised in its draft EBSCR decision.</p> <p>Furthermore, increasing imbalance charges has the effect of increasing credit requirements which is a direct barrier to new entrants and a significant drain on the capital resources of smaller players.</p> <p>All these new costs and risks would have the effect of putting upward pressure on consumer prices all other things being equal.</p> <p>Implemented on its own, we therefore think P314 alternative would cause significant detriments.</p> <p>Under objective D) credit costs will increase for all players compared with the existing baseline as will the burden of administering the associated rules. So there are net detriments under this objective too.</p> <p>In relation to the proposed solution we do not believe the P314 alternative better facilitates the applicable objectives as bringing forward the implementation date of a reduced PAR value to October 2014 will expose parties to increased balancing costs during times of higher demand,</p>

Respondent	Response	Rationale
		including those of system stress. There is no prospect that with very little opportunity or possibility of them mitigating these additional costs given the short implementation time scales involved.

Question 2: Do you agree with the Workgroup's initial majority view that the P314 **proposed solution** would better facilitate the Applicable BSC Objectives compared with the current baseline?

## Summary

Yes	No	Neutral/No Comment	Other
10	7	0	1

## Responses

Respondent	Response	Rationale
InterGen (UK) Ltd.	No	With reference to the response above, this is applicable for P314 Proposal and its Alternative.
Good Energy	No	Rationale as per Question 1 above.
SmartestEnergy	Yes	Any move towards sharper imbalance prices will improve the efficiency of the balancing arrangements as they will encourage suppliers to focus on their imbalance volumes.
National Grid	Yes	For the reasons set out in our Proposal of and response to P304, we believe that a lower PAR volume in the imbalance price calculation will better facilitate Applicable Objectives (b) and (c).
GDF SUEZ	No	Please see the response to Q1
RWE Supply and Trading GmbH	Yes	The proposed modification better meets the applicable code objectives when compared with the current baseline. In particular the proposal will better meet objective C through the introduction of more marginal cash out prices and is consistent with the direction of travel indicated in the Electricity Balancing significant code review.
VPI Immingham	Yes	Yes, the proposed solution would better facilitate the applicable BSC objectives compared to the current baseline. Reducing the PAR would be more cost reflective as it would sharpen the price signals associated with balancing the system and hence incentivise participants to balance their position ahead of gate closure. This would incentivise market participants to trade, improving liquidity and hence improving competition. It would also better reflect the value of flexible plant, particularly in times of system scarcity which, given the current situation in the market is more likely in Winter 2014/15 than anticipated, hence enhancing competition. All of these combined factors better deliver objectives (b) and (c) of the BSC objectives

Respondent	Response	Rationale
		and therefore we think the proposal should be implemented.
Co-Operative Energy	Comments	We agree that this might be the case if single-priced cash-out were to be introduced at the same time as the initial reduction to PAR planned for this winter. However, as dual-priced cash-out is planned to be retained at this stage, we feel that reducing the PAR before the change to single-priced cash-out is made will merely increase the asymmetric cash-out risk faced by market participants, further entrench the already
Drax Power Limited	Yes	We agree but only marginally so.
Flow Energy Limited	No	No for similar reasons outlined in question one.  The current baseline of PAR 500 is the preferable option for this winter as Ofgem did not indicate before the final proposals in the EBSCR process there would be any change in PAR without a change to single cash-out prices. We do not support any change to PAR under dual pricing.  We are also concerned that all Ofgem's policy development envisaged changes being implemented from 2015-16. Nevertheless most of the arguments given in response to Q1 above equally apply irrespective of the timing differences.
ESB	Yes	Based on the same rationale as our response to Q1, the proposed solution would better facilitate the Applicable BSC Objectives compared to the current baseline.
Centrica	Yes	Reducing the level of PAR should make the cash-out price more cost reflective and should therefore provide an incentive for parties to balance their position, reducing the number of actions taken by National Grid to balance the system (Applicable BSC Objective B). Furthermore this should encourage the trading of positions and increase liquidity in the market (Applicable Objective C). This improvement is marginal for this reduction of PAR.

Respondent	Response	Rationale
SSE plc	Yes	<p>Please see response to Q1.</p> <p>The rationale for reducing the PAR remains the same, albeit the implementation dates and lead times are different, which may limit the effectiveness of the proposal for this Winter.</p>
ScottishPower	Yes	<p>Our views on the P314 Proposed solution against the Applicable Objectives are similar to those on the P314 Alternative solution as the proposals differ only in implementation date. Therefore, we believe, that for the reasons stated above, P314 Proposed would better meet the Applicable BSC Objectives than the current baseline.</p>
First-Utility	No	<p>We do not believe P314 better facilitates BSC objectives however we do believe that P314 would better facilitate the BSC objectives than P304.</p> <p>Objective b – we are unconvinced that the sharpening of prices will bring forward any additional generation or demand response this winter. We believe the initiatives taken by NGC will have a greater impact. We believe the sharper prices will encourage parties to go longer and result in more sell actions by NGC resulting in a less efficient market.</p> <p>Objective c – the adverse distortional effects will have an adverse impact on the ability of smaller non-vertically integrated parties to compete. It is not certain that any tools will be widely available in the market to assist smaller independent parties especially domestic suppliers in managing their risk. We are especially concerned that at times of scarcity, liquidity in the market may dry up as happened in 2006-8.</p>
EDF Energy	Yes	<p>The most relevant Applicable BSC Objectives are (b) and (c).</p> <p><b>BSC Objective (b):</b></p> <p>P314 should create a small but uncertain benefit for better achievement of BSC Objective (b) concerning the efficient, economic and co-ordinated operation of the National Electricity Transmission System.</p> <p>Sharpening energy imbalance prices would increase incentives for market participants to avoid expensive imbalances, particularly during times of</p>



Respondent	Response	Rationale
		<p>system stress, rather than share costs incurred by NGET. Incentives to improve forecasting, schedule generation efficiently (and/or demand where there is capability) and trade ahead of Gate Closure would be increased. This should reduce the volume and cost of balancing actions required to be taken by the System Operator, which should better facilitate BSC Objective (b). However, the extent of systematic behavioural changes resulting from a reduction in PAR volume from 500MWh to 350MWh is uncertain and probably relatively small.</p> <p><b>BSC Objective (c):</b></p> <p>P314 could slightly improve achievement of BSC Objective (c) concerning competition, compared to the existing baseline.</p> <p>More cost-reflective incentives should encourage forward trading and other actions to avoid expensive imbalances. This could increase liquidity in the forward market and the value of flexible resources, potentially benefitting competition by promoting trade and by encouraging investment in flexible capacity (flexible generation, demand participation and other technologies).</p> <p>PAR reform would make the arrangements more reflective of marginal costs and thereby allow parties best able to manage their energy imbalances to gain a competitive advantage according to the value delivered to the consumer, ultimately supporting competition.</p>
DONG Energy Wind Power UK	No	DONG Energy disagrees that P314 proposed solution would better facilitate the applicable BSC objective compared with the baseline for the reasons we have set out in response to Question 1 above.
Utilita Energy Limited	No	<p>No for similar reasons outlined in question one.</p> <p>The current baseline of PAR 500 is the preferable option for this winter as Ofgem did not indicate before the final proposals in the EBSCR process there would be any increase in PAR without a change to single cash-out prices. We do not support any change to PAR under dual pricing.</p> <p>We are also concerned that all Ofgem's policy development envisaged changes being implemented from 2015-16. Nevertheless most of the arguments</p>

Respondent	Response	Rationale
		<p>given in response to Q1 above equally apply irrespective of the timing differences.</p> <p>The timing issues mean that the original is less worse than the alternative, but neither improve on the current baseline.</p>

Question 3: Do you agree with the Workgroup's majority view that PAR should be reduced to a volume of **350MWh**?

## Summary

Yes	No	Neutral/No Comment	Other
8	9	1	0

## Responses

Respondent	Response	Rationale
InterGen (UK) Ltd.	No	<p>InterGen supports the outcome of Ofgem's EBSCR in introducing a single cashout price by Winter 18/19 to make that price signal more cost reflective. We agree that transitional arrangements ahead of that time will be beneficial to a range of market participants. However, introducing PAR 350MWh ahead of the coming winter does not, in our opinion, go far enough and we anticipate will bring only a marginal benefit, due to the forecast difference in system prices at that PAR level (impacting prices in only 33% of periods). It is a step in the right direction but may not impact market prices enough to encourage a behavioural change from market participants. Introducing PAR 250MWh (as proposed in P304) is estimated to impact prices in nearly 50% of periods, enough, we would argue, to affect that change earlier, to the benefit of the consumer.</p>
Good Energy	No	<p>P314 has been raised as a mitigating mod related to P304, and is therefore a lesser of two evils. P314 is therefore being rushed through in parallel with P304 without proper consideration of the normal working practice, and without full consideration of competition in the market due to concerns about the level of supply margin this winter. In summary our key issues with P314 are similar to our concerns about P304:</p> <ul style="list-style-type: none"> <li>the majority of respondents to the assessment consultation phase of P304 were against its implementation, the advent of P314 does not change this fact.</li> <li>at no point has Ofgem suggested it was contemplating it was looking at implementing a reduced PAR without a single marginal price (SMP) until its final decision. To that end, there has been no detailed analysis of impacts of reduced PAR on its own, or to the likely impacts of behavioural</li> </ul>

Respondent	Response	Rationale
		<p>changes on estimated imbalance prices.</p> <ul style="list-style-type: none"> <li>the proposed implementation timeline does not provide adequate notice from the point of decision for anything other than P314 proposed solution, and no prior indication was given to the market of implementation of any change to PAR for winter 2014-15 until recently.</li> <li>security of supply concerns this winter are being greatly exaggerated. A reduction in PAR itself will not make a significant difference and will only increase supplier and customer costs, especially for new entrants, smaller players, and those without significant vertical integration.</li> <li>Smaller suppliers and generators will be more significantly impacted compared to larger players due to the disproportionate effect of imbalance charge distributions, the credit cover impacts, and relative operational cost impact of making the changes to systems and processes.</li> </ul>
SmartestEnergy	Yes	None provided
National Grid	Yes	We agree with the view that a PAR volume of 350MWh is preferable to one of 500MWh.
GDF SUEZ	No	GDF SUEZ would only support a reduction from the current value of PAR if it was combined with the introduction of a single cashout price. Without this, it would be a backward step in terms of the economic and efficient balancing of the system.
RWE Supply and Trading GmbH	Yes	We support the move to more marginal cash out prices. The proposed PAR volume of 350MWh is an improvement when compared with the current baseline.
VPI Immingham	No	We refer to our response to consultation P304 where we support the implementation of the original proposal, to reduce the PAR to 250MWh. This would better deliver the applicable BSC objectives and be a more suitable step change towards full implementation of the Electricity Balancing Significant Code Review. However, should modification P304 be rejected, then we support the proposal to reduce PAR to 350MWh.

Respondent	Response	Rationale
Co-Operative Energy	Yes	If Ofgem is minded to reduce PAR this winter from its current level of 500MWh, then we believe that a PAR of 350MWh will create a lesser level of imbalance risk exposure for non-vertically integrated smaller suppliers than the proposed reduction to 250MWh as proposed in P304. However, we would prefer that PAR were left at its current level until single-priced cash-out is introduced.
Drax Power Limited	No	Please see our answer to Question 4.
Flow Energy Limited	No	<p>No. Maintaining PAR at 500MWh better achieves the BSC objectives of promoting efficient system use and competition for this winter in the absence of single cash-out prices.</p> <p>Imposing a lower value without a single price has not been properly tested and disrupts the commercial baseline assumed by trading parties. A PAR of 350mWh is preferable to a PAR of 250, or lower, but is not preferable to the baseline.</p>
ESB	No	<p>We do not agree that PAR should be reduced to 350MWh. Although such a reduction is likely to be an improvement to current baseline we do not feel that the reduction goes far enough. Instead we support a reduction of PAR to 250MWh, as set out in our response to the consultation on P304.</p> <p>Although analysis suggests the distributional impacts of PAR350 are not as great as PAR250 this analysis does not take into account behavioural changes and the likely impact on liquidity in forward markets. Reducing PAR to 350MWh may have unintended negative impacts as imbalance prices will rise but price signals in forward markets will not be sufficient to encourage flexible capacity and improved liquidity when compared to PAR250, leaving parties with increased imbalance prices yet less ability to manage them in forward markets.</p> <p>Given the wider set of cash-out reforms proposed under P305 due to come into effect in 2015/16 we believe that a period of market adjustment is necessary, however reducing PAR from 500MWh to 350MWh is not provide a sufficiently measurable effect on cash-out. To allow industry to model and manage the effects of PAR reductions the step down should be more pronounced in the transitional phase as this will reduce the potential for negative impacts when the market moves to PAR50 in</p>

Respondent	Response	Rationale
		2015/16
Centrica	Yes	We support the introduction of a lower PAR to ensure that imbalance charges better reflect the value of more flexible generation.
SSE plc	Yes	We believe that the intention of the proposer is to given the Authority a simple choice of PAR values to consider when assessing modification proposal P304 (albeit with some differing considerations on implementation timetables). PAR350 was chosen as a value that reduced distributional effects anticipated from retaining a dual price structure, therefore it is appropriate to allow this alternative value to be presented to the Authority for consideration.
ScottishPower	Yes	Reducing the PAR value from 500MWh to 350MWh strengthens the signal to Parties to balance their positions before Gate Closure by making the main imbalance price signal more reflective of the marginal actions taken by the system operator to balance the system.
First-Utility	No	We believe that a reduction in PAR to 350 is better than a reduction in PAR to 250. Our preference would be that PAR is reduced only after a single cash-out regime has been implemented. We therefore see PAR 350 as being less bad than PAR 250 considering the change is being made while dual cash-out is still in operation.
EDF Energy	Yes	Making cash-out sharper should allow BSC Objectives to be better met. Changing in steps, starting with PAR350 this winter, will provide parties with time to adjust gradually to lower PAR values and to change behaviours accordingly.
DONG Energy Wind Power UK	n/a	This question is not applicable on the basis of our comments outlined under Questions 1 and 2.
Utilita Energy Limited	No	No we believe that maintaining PAR at 500MWh would better achieve the BSC objectives of promoting efficient system use and competition for this winter in the absence of single cash-out prices.  Imposing a lower value without a single price has not been properly tested and disrupts the commercial baseline assumed by trading parties.

Question 4: Do you agree with the Workgroup's majority view that a reduction in PAR to a volume of 350MWh is preferable to a reduction to 250MWh?

## Summary

Yes	No	Neutral/No Comment	Other
10	7	1	0

## Responses

Respondent	Response	Rationale
InterGen (UK) Ltd.	No	Please refer to our response to Question 3
Good Energy	Yes	The analysis carried out on behalf of the workgroup for PAR250 and more recently the more segmented view of PAR350 analysis shows that PAR350 has a less severe impact on the market as a whole, and less impact on smaller market participants who are less capable of dealing with a significant change to the cash out mechanism without sufficient notice.
SmartestEnergy	Yes	None provided
National Grid	No	By creating a sharper price signal, that better reflects the costs of balancing the system, we believe that a PAR volume of 250MWh is preferable to 350MWh. Whilst a PAR350 is an improvement on PAR500 the reduction is relatively modest and in turn will have a more muted impact on market participant incentives than a move to PAR250.
GDF SUEZ	Yes	Yes – this is better than PAR 250MWh but we would prefer to maintain the status quo until a single cashout price is also introduced.
RWE Supply and Trading GmbH	No	The proposed PAR volume of 350MWh under modification proposal P314 does not reflect the PAR volume of 250MWh as set out in the Electricity Balancing significant code review.
VPI Immingham	No	<p>No, we believe that a reduction of PAR to 250MWh better delivers the applicable BSC objectives, is more in line with the intention of the Electricity Balancing Significant Code Review and is a more suitable reduction in PAR ahead of full implementation.</p> <p>Looking at Elexon's impact analysis of the different levels of PAR, the distributional impacts between the two options is negligible, with the SBP being impacted by &lt;£2 in 80% of cases under a PAR of</p>

Respondent	Response	Rationale
		<p>250MWh and 90% of cases with a PAR of 350MWh. Conversely, the SSP is changed by &lt;-£2, 95% of the time with a PAR of 250MWh and 98% of the time with a PAR of 350MWh.</p> <p>In addition, the analysis clearly shows that the biggest impact on imbalance cost, as expected, is at times of system scarcity, hence delivering the intended objective of sharpening imbalance costs at appropriate times.</p>
Co-Operative Energy	Yes	Yes, please see our answers above.
Drax Power Limited	No	A reduction of the PAR value to 350MWh will tend to result in both lower benefits and costs relative to a reduction to 250MWh. There is very little to choose between the two values, but on balance we believe there would be a marginally greater benefit in reducing the PAR value to 250MWh.
Flow Energy Limited	Yes	Yes we agree that if PAR is reduced, a value of 350MWh is preferable to a value of 250MWh. Neither option is likely to have a dramatic security of supply effect over this winter, but PAR 350MWh will have a lesser detrimental effect on the competitiveness of smaller parties.
ESB	No	No, see response to Q3.
Centrica	Yes	We prefer the reduction of PAR to 250MWh as we believe this provides a stronger signal for market participants to balance their position.
SSE plc	No	SSE prefers the lower PAR value, as it will move the price signal closer to the marginal cost, with the associated benefits as advocated in response to Q1 above and in our response to P304 Assessment Consultation.
ScottishPower	Yes	The modelling undertaken by ELEXON indicates that the distributional effects of a reduction in PAR to 350MWh rather than 250MWh are reduced. A move to 350MWh also allows Parties time to adapt their hedging strategies during a more gradual move to fully marginal prices in 2018/19.
First-Utility	Yes	See above.



Respondent	Response	Rationale
EDF Energy	Yes	While we believe that the difference between the two would be minimal most of the time, we would be supportive of a reduction in PAR volume to 350MWh if this means it would assist smaller suppliers and other companies in managing the commercial impacts of a change made at relatively short notice, thus better facilitating some aspects of BSC Objective (c).
DONG Energy Wind Power UK	n/a	This question is not applicable on the basis of our comments outlined under Questions 1 and 2.
Utilita Energy Limited	Yes	Yes we agree that if PAR is reduced, a value of 350MWh is preferable to a value of 250MWh. Neither option is likely to have a dramatic security of supply effect over this winter, but PAR 350MWh will have a lesser detrimental effect on the competitiveness of smaller parties. In other words, it is the lesser evil.

Question 5: Do you agree with the Workgroup that the draft legal text in Attachment A delivers the intention of both P314 proposed and alternative solutions?

## Summary

Yes	No	Neutral/No Comment	Other
15	0	3	0

## Responses

Respondent	Response	Rationale
InterGen (UK) Ltd.	Yes	None provided.
Good Energy	Yes	The change is a straightforward change to the level of PAR.
SmartestEnergy	No comment	None provided
National Grid	Yes	None provided.
GDF SUEZ	Yes	None provided.
RWE Supply and Trading GmbH	Yes	None provided.
VPI Immingham	Yes	None provided.
Co-Operative Energy	Yes	Yes, we believe that the legal text as drafted will deliver the desired outcome.
Drax Power Limited	Yes	We believe it does.
Flow Energy Limited	Yes	None provided.
ESB	Yes/No	No comment.
Centrica	Yes	We consider the legal text reflects the intention of the proposed and alternative P314 modification.
SSE plc	Yes	None provided.
ScottishPower	Yes	None provided.
First-Utility	Yes	None.
EDF Energy	Yes	Yes, the draft text merely changes PAR 500 to PAR 350.
DONG Energy Wind Power UK	n/a	This question is not applicable on the basis of our comments outlined under Questions 1 and 2.

<b>Respondent</b>	<b>Response</b>	<b>Rationale</b>
Utilita Energy Limited	Yes	None provided.

Question 6: Do you agree with the Workgroup's recommended Implementation Dates for the P314 proposed and alternative solutions (including associated lead times)?

### Summary

Yes	No	Neutral/No Comment	Other
12	3	1	2

### Responses

Respondent	Response	Rationale
InterGen (UK) Ltd.	Yes	InterGen agrees with the rationale of the Alternative Solution that the changes should be implemented ahead of Winter 14/15, to enable the benefits of reduced PAR to be more fully realised. We do not, however, agree with the volume proposal for PAR under the Alternative Solution.
Good Energy	Proposed – Yes  Alternative - No	The proposed implementation timeline does not provide adequate notice from the point of decision for anything other than the P314 proposed solution.
SmartestEnergy	No	All of the dates fall within a financial year and for a period in which contracting rounds will have closed. At the earliest it should be April 2015 and preferably October 2015.
National Grid	Yes	We support the Implementation Date recommended in the alternative solution for the reasons provided in Question 1.
GDF SUEZ	Yes	None provided.
RWE Supply and Trading GmbH	Yes	The implementation dates are reasonable with respect to the defects identified in the original and alternative proposals.
VPI Immingham	Yes	We agree with the recommended implementation dates and believe that the modification, if implemented, should be delivered ahead of Winter 2014/15, i.e. 31st October 2014 as proposed in the alternative solution.
Co-Operative Energy	Yes	Yes, we believe that the proposed implementation dates are suitable.

Respondent	Response	Rationale
Drax Power Limited	Yes	The differing implementation approaches provide a choice between delivering greater benefits but also greater costs (the Alternative) and delivering lower benefits but also lower costs (the Proposed). It is therefore appropriate to differentiate the two solutions in this manner.
Flow Energy Limited	No	No changes should be made to PAR until they can be aligned with the Single Cash Out Price.  Both changes are too early. The market requires more notice for fundamental changes to commercial arrangements.
ESB	Yes	We agree with the panel's recommended implementation date and would encourage a decision to be made as quickly as possible to ensure improved price signals are in place prior to the winter period.
Centrica	Yes	None provided.
SSE plc	Yes	None provided.
ScottishPower	Yes	None provided.
First-Utility	Other	We propose the date of 2nd January 2015 for P314. We do not support any earlier date as this gives insufficient time for suppliers to assess, prepare and manage the potential adverse impact that the modification will have on their businesses. Customer revenues are now fixed for this winter for many suppliers and this additional risk needs to be reduced to acceptable levels and be manageable within the contracted revenue streams.
EDF Energy	Yes	For both solutions, we will have at least 10 Working Days to implement the changes, so we are satisfied with the recommended dates.
DONG Energy Wind Power UK	n/a	DONG Energy does not support the P314 proposed or alternative solutions therefore we are not supportive of the associated implementation dates.
Utilita Energy Limited	No	Both changes are too early. The market requires more notice for fundamental changes to commercial arrangements. This seems to be recognised now under network codes, but not (judging by the EBSCR proposed implementation) in the energy market.

## Question 7: Will P314 impact your organisation?

### Summary

Yes	No	Neutral/No Comment	Other
18	0	0	0

### Responses

Respondent	Response	Rationale
InterGen (UK) Ltd.	Yes	Changes to PAR will impact all generators, independent and vertically integrated. InterGen, as an independent generator, relies on the market providing cost reflective signals in order to keep current plant open and to invest in new capacity. The 'missing money' problem has impacted independent generators in recent years, and the resulting lack of investment in the UK is what has brought forward the suite of proposals under EMR. The EBSCR work alongside that aims to reduce the dampening of cashout prices in order to incentivise adequate volumes of flexibility onto the system – essential in a market with increasing amounts of 'must-run' and intermittent generation. InterGen believes that sharpening cashout prices is absolutely necessary. The system cannot function without adequate flexibility. P314 will require us to load follow more carefully, to balance our position with greater precision and reduce our imbalance costs. This will be to our benefit and to the benefit of our customers. It will impact our organisation, ultimately in a positive way.
Good Energy	Yes	As a small renewable supplier we expect to be materially adversely impacted if P314 is implemented by higher imbalance charges (net of RCRC) due to sharpened imbalance prices.  There are also additional costs as per question 8 below.
SmartestEnergy	Yes	We anticipate imbalance costs to increase.
National Grid	Yes	We do not perceive there to be any direct impacts to National Grid as a result of P314. However, as market participants' behaviour is likely to adapt in response to a stronger imbalance price signal, driving incentives to balance their positions, fewer energy balancing actions should be required to be taken in our role as System Operator (SO).

Respondent	Response	Rationale
GDF SUEZ	Yes	<p>P314 will have the following impacts</p> <ul style="list-style-type: none"> <li>it will increase the imbalance exposure cost of any unplanned outages.</li> <li>it will increase balancing costs for our retail business which in turn will increase costs for end users.</li> <li>it will also reduce revenues for certain embedded generation installations where "spill" contracts are not uncommon.</li> </ul>
RWE Supply and Trading GmbH	Yes	The move towards more marginal cash out prices will have an effect on the risks associated with imbalance in the electricity market. Consequently we would expect that the proposed change would have a small effect on hedging strategies, may reduce the total cost of imbalance and may reduce the costs associated with actions taken by the system operator.
VPI Immingham	Yes	P314 will impact the imbalance prices that we will pay, which we support, but we do not envisage any further impact on VPI Immingham.
Co-Operative Energy	Yes	Yes, as discussed in our answer to Question 1 above, implementation of P314 will significantly increase our imbalance risk. This is a risk that we are unable to effectively hedge due to not having generation within our portfolio, unlike the large vertically integrated suppliers. We therefore believe that that placing this increased risk on smaller players who are less able to ameliorate its impacts is likely to have a negative
Drax Power Limited	Yes	There will be an impact although we do not expect it to be significant.
Flow Energy Limited	Yes	Yes. P314 could effectively double our net imbalance charges; it will also dramatically increase our exposure to price volatility.
ESB	Yes	Increased imbalance prices will increase the cost incurred by generation units during periods in which their positions are not balanced.

Respondent	Response	Rationale
Centrica	Yes	Introducing a lower PAR value will result in sharper and more volatile cash-out prices, in order to maintain our current risk appetite; we expect to have to improve our forecasting and hedging techniques and processes. Additionally, there is likely to be an increase to the amount of credit that will need to be posted.
SSE plc	Yes	SSE is a large physical player in both the supply and generation markets and an active trader in the energy commodities markets, and is therefore exposed to imbalance prices on our electricity generation and supply portfolios. A more marginal approach to imbalance price formulation will sharpen incentives to balance, influence the value of risk feeding back into the forward price and impact optimisation and trading decisions.
ScottishPower	Yes	P314 will not significantly impact our systems or internal processes but will require a re-consideration and re-evaluation of the risks of more marginal imbalance pricing on our generation and supply businesses.
First-Utility	Yes	<p>Both the proposed and the alternate solutions represent unknown unmanageable risk for smaller non-vertically integrated domestic suppliers; they are simply less bad than the alternative P304.</p> <p>There is little information that can be used to accurately model the impact of this modification at times of scarcity, this fact combined with the lack of behavioural modelling makes calculating the impact very difficult and with high probability of error.</p> <p>Initial calculations show that this modification will require us to increase our working capital by between £1m and £2m, money that might otherwise have been spent on improving efficiencies, improving customer service or customer acquisition. The differences between the proposed alternate mods are simply when the increase in working capital should occur. The alternate allows one month to make this change, which is not reasonable.</p> <p>The illiquid wholesale market as it stands today offers little scope for smaller non-integrated suppliers to take any action other than perhaps go longer in terms of demand forecasting. Parties will</p>



Respondent	Response	Rationale
		be going blind into an uncertain future; with poor knowledge of the liquidity position or impact it will have on their organisation.
EDF Energy	Yes	<p>As a BSC Party, we will be impacted by the effects of the reduced PAR value on imbalance prices. The extent of the impact on operational risk management, forward trading strategies, demand forecasting etc. are currently being considered. We will need to spend time and effort training the impacted operational staff on the new arrangements. In addition, staff time will be spent in updating our traders' tools and processes used to forecast SBP and SSP.</p> <p>We do not anticipate any difference between the process impacts of the proposed and alternative solutions.</p>
DONG Energy Wind Power UK	Yes	<p>DONG Energy, a leading developer and operator of offshore wind farms in the UK will face a significantly increased level of balancing cost, being the average increase in SBP as identified from the EBSCR forward modelling results). DONG Energy will also become structurally exposed to the risk of SBP price spikes, which is of particular concern given the inherent variable nature of our generation portfolio. DONG Energy note therefore, that we will not be running at an 'average imbalanced position', unlike other more predictable and/or baseload forms of generation who may be able to manage this more effectively.</p>
Utilita Energy Limited	Yes	<p>It will increase exposure to erratic costs that are difficult to manage in a market where smaller players find it difficult to access product and buy flexibility. It could have particularly adverse impacts this winter given the lack of notice and the failure of the change proposal to also include a shift to a single marginal price.</p>

## Question 8: Will your organisation incur any costs in implementing P314?

### Summary

Yes	No	Neutral/No Comment	Other
8	10	0	0

### Responses

Respondent	Response	Comments
InterGen (UK) Ltd.	No	IT costs to implement a change in PAR are expected to be minimal.
Good Energy	Yes	On top of the additional imbalance cost, there will be an unknown additional cost for Good Energy to take remedial action to attempt to mitigate the risk of more severe market prices, the increased credit requirements, and changes to operational elements such as updated systems and processes.
SmartestEnergy	No	PAR is calculated centrally and we do not use the value to replicate system prices.
National Grid	No	None provided.
GDF SUEZ	No	None provided.
RWE Supply and Trading GmbH	No	None provided.
VPI Immingham	No	None provided.
Co-Operative Energy	Yes	While we do not believe we will incur any significant additional costs internally should P314 be implemented, we would like to reiterate that our imbalance risk will increase and this will likely increase the amount of credit we are required to post in relation to electricity balancing and with our trading counterparts in the wider market.
Drax Power Limited	No	We expect our organisations to incur minimal system costs due to the implementation of P314.
Flow Energy Limited	Yes	There will be additional hedging costs to manage the increased risks, higher costs from balancing where this is not achievable and credit costs will increase in either case.
ESB	No	We do not envisage incurring any implementation costs at this time

Respondent	Response	Comments
Centrica	No	We anticipate minimal costs associated with implementing this change.
SSE plc	Yes	Minor. There will be minor systems impact to price monitoring and calculation tools and the need for minor amendments to processes and education tools.
ScottishPower	No	As for Question 7, P314 will not significantly impact our systems or internal processes but will require a re-consideration and re-evaluation of the risks of more marginal imbalance pricing on our generation and supply businesses. The cost impact of any increased risk may, ultimately, have to be passed on to consumers.
First-Utility	Yes	The direct costs will be additional forecasting costs, credit security costs and risk capital.
EDF Energy	Yes	There will be costs associated with making the changes outlined above although they could be considered as 'Business as Usual' costs.
DONG Energy Wind Power UK	Yes	A full cost assessment can only be done when the modification has been implemented, however, it can be expected that we will incur higher transaction costs as a function of increased balancing and/or hedging actions taken, as well as the increased imbalance charges themselves.
Utilita Energy Limited	Yes	There will be additional hedging costs to manage the increased risks, higher costs from balancing where this is not achievable and credit costs will increase in either case.

Question 9: Will the current Credit arrangements be impacted if there is a reduction in PAR to 350MWh?

### Summary

Yes	No	Neutral/No Comment	Other
15	2	1	0

### Responses

Respondent	Response	Comments
InterGen (UK) Ltd.	No	There may be a modest change in the amount of credit cover we are required to post, although this is unknown at present and entirely dependent on the level of PAR and the capacity margins across the winter.
Good Energy	Yes	The analysis by the P304 Workgroup shows that a reduction in the PAR value will make imbalance prices more volatile and increase imbalance charges for small suppliers. The higher imbalance charges will increase 'Actual Energy Indebtedness' and hence the amount of credit cover required to be lodged with Elexon. However, the increased volatility of imbalance prices and hence volatility in imbalance charges will cause sudden, more rapid, change in indebtedness which would increase the credit cover requirement on Good Energy even further.
SmartestEnergy	Yes	There will inevitably be some impact on credit arrangements if imbalance costs increase. However, we do not believe this will be significant. For one thing the industry is massively over-collateralised anyway and the effect will not be so great.
National Grid	n/a	National Grid's credit arrangements will not be impacted by the reduction in PAR value. However, we are aware that there is potential for the Credit arrangements of some parties to be impacted, though it is difficult to comment on the extent of these impacts for other organisations.
GDF SUEZ	Yes	The larger the imbalance price, the more Credit Cover a Party may need.

Respondent	Response	Comments
RWE Supply and Trading GmbH	No	There may be a small impact on credit requirements associated with the potential for increased costs of imbalance. However, this is outweighed by the wider benefits associated with more efficient management of electricity imbalance by market participants.
VPI Immingham	Yes	Whilst an increase in the imbalance charge is likely to impact credit arrangements, we do not believe that these will be material changes due to the small change in imbalance price on the majority of occasions.
Co-Operative Energy	Yes	Yes, as already described, we believe that we will be required to post more credit for balancing purposes as our imbalance risk will increase due to the reduction in PAR.
Drax Power Limited	Yes	We expect there will be some impact, but note that no evidence has been produced to date indicating that the impact is likely to be significant.
Flow Energy Limited	Yes	Credit cover will need to be increased to take account of greater price volatility and exposure.
ESB	Yes	In the event that the cost of imbalance increases it is likely that there will be greater credit requirements on parties as the financial impacts of their imbalance positions will become greater.  It is important to note the assessment of credit arrangements being carried out on a wider industry basis and any work in this area should be mindful of the potential impacts of more marginal cash-out prices on BSC parties credit requirements.
Centrica	Yes	Any potential increase in the levels of imbalance charges will result in increased credit requirements.
SSE plc	Yes	If forward price responds sufficiently to the incentives created by a more marginal price, then it is possible that Credit Assessment Price will rise with an increased exposure calculated for the assessed element of the credit calculation.  The actual indebtedness element of the calculation is likely to increase as prices rise, particularly at times of system stress, although the effect will be mitigated to an extent by behavioural changes as Parties are incentivised to better balance and reduce exposure to imbalance prices.

Respondent	Response	Comments
		The most likely impact in our view therefore is to increase some of the length in credit positions currently held in the industry. We remain to be convinced however that the impact on prices from this modification would be significant enough for Parties to increase their credit cover to any great extent, as the exposure is calculated over a rolling 29-day window, so the so the P314 Assessment Procedure Consultation Questions 16 September 2014 effects of occasional peaks in prices are smoothed in the exposure calculation. The exception to this would be if there is a sustained peak in prices over a longer period, in which case the underlying energy economic fundamentals and system conditions would suggest that increased credit cover is warranted.
ScottishPower	Yes	ELEXON's PAR350 analysis indicates that a reduction in PAR to 350MWh will result in an increase in SBP and a decrease in SSP which will in turn impact Parties' imbalance cashflows and credit indebtedness. Due to the distributional effects demonstrated in the analysis, the impact on the credit indebtedness and credit requirements on some Parties will be greater than on others.
First-Utility	Yes	See above.
EDF Energy	Yes, potentially	An increase in imbalance charges may increase the level of credit to be provided under the BSC. Managing this should be part of the process changes BSC Parties ought to be considering.
DONG Energy Wind Power UK	Yes	DONG Energy believe that as a function of the higher imbalance prices, subsequent higher credit cover requirements will therefore be expected.
Utilita Energy Limited	Yes	More credit will be required given potential exposure to higher and more volatile imbalance costs. In turn this will reinforce barriers to entry.

Question 10: Please specify your order of preference for the implementation date of a reduction of PAR to 350MWh between: 31 October 2014, 1 December 2014 or 2 January 2015.

## Responses

Respondent	Response
InterGen (UK) Ltd.	It is InterGen's preference to reject P314 in favour of P304. Our preference for implementation date is <b>31st October 2014</b> , so that the benefits of a reduced PAR can be realised across the winter.
Good Energy	In order of preference, starting with the preferred first: <ul style="list-style-type: none"> <li>• <b>2 January 2015</b></li> <li>• 1 December 2014</li> <li>• 31 October 2014</li> </ul>
SmartestEnergy	Our preference would be in the following order: <ul style="list-style-type: none"> <li>• <b>2 January 2015.</b></li> <li>• 1 December 2014;</li> <li>• 31 October 2014;</li> </ul>
National Grid	Our order of preference is as follows (1 most preferred to 3 least preferred): <ol style="list-style-type: none"> <li>1. <b>31 October 2014</b></li> <li>2. 1 December 2014</li> <li>3. 2 January 2015</li> </ol>
GDF SUEZ	<ul style="list-style-type: none"> <li>• <b>31 October 2014;</b></li> <li>• 1 December 2014; or</li> <li>• 2 January 2015.</li> </ul>
RWE Supply and Trading GmbH	The implementation date for P314 should reflect the trade-off between the potential for capacity shortfalls this winter and the impact on supplier hedging strategies.
VPI Immingham	We believe that the PAR should be adjusted ahead of Winter 2014/15 and therefore support the earlier implementation date of <b>31st October 2014</b> . If this date is not achievable, then we would propose the slightly later date of 1st December 2014. Implementing this change ahead of Winter is important, especially given the current issues in the generation market and the potential for system scarcity in Winter 2014/15.

Respondent	Response
Co-Operative Energy	Although all of these dates are within the winter contract period beginning in October, which is when the likelihood of tight network situations is the highest, we believe it would be prudent to direct implementation as late as possible so that smaller non-vertically integrated suppliers will be exposed to winter levels of cash-out risk under the new PAR level for the shortest possible period. We would therefore request that implementation be set for <b>2 January, 2015</b> .
Drax Power Limited	There is very little to choose between the different implementation dates listed above. The earlier implementation date is likely to result in greater advantages but also greater disadvantages. The later implementation date is likely to result in lower advantages but also lower disadvantages. Ideally we prefer later implementation dates to allow parties sufficient time to respond to regulatory changes. But in this case, as the expected impacts of P314 are likely to be small, we believe that a <b>31 October</b> implementation date can be justified.
Flow Energy Limited	Our order of preference for implementation dates is; <ol style="list-style-type: none"> <li>1. <b>2 January 2015</b></li> <li>2. 1 December 2014</li> <li>3. 31 October 2014</li> </ol> <p>The rationale is simple – the detriments to applicable objectives B, C and D will be deferred.</p> <p>1 April 2015 is the earliest date that should be contemplated, but even then we believe this should be in parallel with implementation of SMP.</p>
ESB	Our preference would be to implement any reduction in PAR from <b>31 October 2014</b> in order to ensure the changes are in place ahead of the winter period. Any later date would not allow the market time to adjust to the changes ahead of what is forecast to be a winter of reduced capacity margins.
Centrica	We prefer the order in which they are stated ( <b>31/10/14</b> – 1st, 01/12/14 – 2nd and 02/01/2015 – 3rd), this is due to the modification fixing an issue within the BSC, as such we can see no reason for delaying implementation in this case.
SSE plc	1st preference is <b>31st October 2014</b> , as we believe it is beneficial to implement the change at the earliest opportunity and ensures that potential peak demand (Triad) days falling towards the end of November would be subject to the sharper incentive.



Respondent	Response
ScottishPower	<p><b>31 October 2014</b></p> <p>1 December 2014</p> <p>2 January 2014.</p> <p>P314 is designed to reflect the value of scarcity into cash-out prices. Ofgem and the system operator have already indicated that there may be an issue over the generation margin this winter. If a reduction in the PAR value is believed to help address this issue then it should be implemented in order to have effect over the full winter period as issues of scarcity could arise earlier in the period rather than later. An implementation date of 1 October 2014 will also allow Ofgem to consider the merits of P314 and P304 purely on the issue on the PAR value to be implemented.</p>
First-Utility	<p><b>2nd January 2015</b></p> <p>1st December 2014</p> <p>31st October 2014</p> <p>Rationale as previously mentioned.</p>
EDF Energy	<p>We would prefer the following order - <b>31 October 2014</b> or 1 December 2014 (no strong view, the latter is the dictionary start of winter); then 2 January 2015.</p> <p>31 October or 1 December 2014 are our preferred implementation dates, because the purpose of reducing PAR this year (under Ofgem's EBSCR Decision) is to provide a better signal of scarcity in the market for winter 2014/15.</p>
DONG Energy Wind Power UK	<p>DONG Energy does not support the P314 proposed or alternative solutions therefore we are not supportive of the associated implementation dates.</p>
Utilita Energy Limited	<p>Our preferred order of preference for implementation dates are;</p> <ol style="list-style-type: none"> <li>1. <b>2 January 2015</b></li> <li>2. 1 December 2014</li> <li>3. 31 October 2014</li> </ol> <p>The rationale is simple – the detriments to applicable objectives B, C and D will be deferred.</p> <p>1 April 2015 is the earliest date that should be contemplated, but even then we believe this should be in parallel with implementation of SMP.</p>

Question 11: Are there any potential Alternative Modifications within the scope of P314 which would better facilitate the Applicable BSC Objectives that the Workgroup should consider?

### Summary

Yes	No	Neutral/No Comment	Other
2	15	1	0

### Responses

Respondent	Response	Comments
InterGen (UK) Ltd.	No	None provided.
Good Energy	No	The P314 proposed solution represents the best balance between introducing more marginal imbalance price signals, and allowing market participants the time to adjust to the significant change and deal with the cost and credit impacts on their businesses.
SmartestEnergy	No	None provided.
National Grid	No	In the context of the currently open modifications P304 and P305, which also address the PAR volume, we have not identified any further alternative modifications that should be considered under P314.
GDF SUEZ	No	None provided.
RWE Supply and Trading GmbH	No	None provided.
VPI Immingham	No	None provided.
Co-Operative Energy	Yes	Yes, we believe that if the implementation of P314 were to be accompanied by the introduction of single-priced cash-out, this would then ameliorate the current asymmetric imbalance risk posed by dual-priced cash-out and reduce the incentive for larger vertically-integrated suppliers to hold back generation from the market for the purposes of fine tuning their near-term position and thus possibly increase imbalance prices still further.
Drax Power Limited	No	The suggested Alternative solution appears adequate.

Respondent	Response	Comments
Flow Energy Limited	No	We believe a move to a single cash-out price would better facilitate the BSC objectives. A PAR reduction on its own will be detrimental to competition within the supply industry.
ESB	No	Not at this time.
Centrica	No	None provided.
SSE plc	No	None provided.
ScottishPower	No	None provided.
First-Utility	Yes	We would prefer that the reduction of PAR be implemented coincident with a change from dual cash-out to single cash-out. This option has been suggested a number of times, but for operational and timescale reasons the suggestion has been rejected.
EDF Energy	No	None provided.
DONG Energy Wind Power UK	n/a	This question is not applicable on the basis of our comments outlined under Questions 1 and 2.
Utilita Energy Limited	No	<p>We believe a move to a single cash-out price would better facilitate the BSC applicable objectives, and is what the EBSCR intimated until the final decision. However, we understand that the analysis required to complete an industry assessment will not be able to be undertaken in the urgent timescale this modification is under and that such a change was ruled out of scope by Elexon for P304.</p> <p>A PAR reduction on its own is therefore experimental, the impacts on behaviour untested and the effects difficult to manage at a time when there is acute pressure to reduce pressures on consumer bills.</p>

## Question 12: Do you believe that any further information would help you and/or the Workgroup assess P314?

### Summary

Yes	No	Neutral/No Comment	Other
7	10	1	0

### Responses

Respondent	Response	Comments
InterGen (UK) Ltd.	No	None provided.
Good Energy	Yes	Provision of segmented market participant analysis as per the analysis carried out for PAR350 for the P314 workgroup. It has been requested and would allow more parties to establish the likely average impacts on their businesses.
SmartestEnergy	No	None provided.
National Grid	No	None Provided.
GDF SUEZ	No	None Provided.
RWE Supply and Trading GmbH	No	None provided.
VPI Immingham	No	None provided.
Co-Operative Energy	Yes	We would be interested to see imbalance modelling for the potential effects on cash-out price of P314 (and for that matter, P304 and P305) over a longer time period of historic cash-out prices, perhaps a ten year period going back to 2004. For example, high cash out prices were observed over the winters of 2005/6 and 2008/9 but these have not been included in the analysis presented. We think that, if this data were included, a clearer view of the likely impact on imbalance prices of the proposed varying levels of PAR reduction in tight network situations could be achieved.
Drax Power Limited	Yes	More information is always helpful (for example on the likely cost impacts for smaller domestic suppliers), although we suspect that not enough time is available in the Modification process to adequately produce and assess any further information.

Respondent	Response	Comments
Flow Energy Limited	Yes	<p>There is no analysis that properly considers behavioural responses or that takes into account the difficulties that smaller suppliers have in responding to an ex-post cost that is impossible to forecast.</p> <p>We believe a full impact assessment is required of a PAR reduction on its own.</p>
ESB	Yes/No	<p>As the analysis carried out in order to assess the distributional impacts of various PAR reductions does not take into account changes in behaviour and forward market liquidity the analysis does not provide a complete picture of the impact of the changes.</p> <p>Additional information on changes to behaviour and forward market liquidity would better aid the assessment of the proposal, however we understand this may not be practical given the timescales involved.</p>
Centrica	Yes	<p>It is unfortunate that further assessment based on a more stressed market was not included in either the P304 or P314 analysis. If this was included a more accurate assessment could have been made of the more likely future impacts to market participants.</p>
SSE plc	No	<p>SSE note that an independent game theory analysis anticipating how behaviours might change as a result of a sharper cash-out incentive would be ideal to assist in formulating a view, but is not practical in the timescale anticipated by the urgent timetable for progression granted.</p>
ScottishPower	No	None provided.
First-Utility	Yes	<p>Greater understanding of the adverse distributional impacts at times of scarcity.</p> <p>Understanding of the likely benefit on the positive response to the modification in terms of additional capacity/demand side response that will be made available as a result.</p>
EDF Energy	No	None provided.
DONG Energy Wind Power UK	No	None provided.

Respondent	Response	Comments
Utilita Energy Limited	Yes	<p>There is no analysis that properly considers behavioural responses or that takes into account the difficulties that smaller suppliers have in responding to an ex-post cost that is impossible to forecast.</p> <p>We believe a full impact assessment is required of a PAR reduction on its own.</p>

## Question 13: Do you have any further comments on P314?

### Summary

Yes	No
6	12

### Responses

Respondent	Response	Comments
InterGen (UK) Ltd.	No	n/a
Good Energy	No	n/a
SmartestEnergy	Yes	We believe that a PAR 350 should remain in place until single cash out is introduced; a period of PAR 250 with dual cash out is not desirable.
National Grid	No	n/a
GDF SUEZ	No	n/a
RWE Supply and Trading GmbH	No	n/a
VPI Immingham	No	n/a
Co-Operative Energy	Yes	We would like to reiterate our earlier comments that, while we would prefer that PAR stay at its current level of 500MWh, if Ofgem is minded to implement a reduction to this then a PAR of 350MWh as proposed in this modification would have a less detrimental impact on the ability of smaller suppliers to compete on a level playing field than a PAR of 250MWh as proposed in P304 for the reasons discussed above. We would also request that, if Ofgem is minded to reduce the level of PAR this winter, consideration is given to the simultaneous introduction of single-priced cash-out as this will remove the asymmetric cash-out risk posed by the current dual-priced cash-out mechanism and reduce the incentive for large vertically integrated suppliers to hold back generation plant for self-balancing purposes.
Drax Power Limited	No	n/a
Flow Energy Limited	No	n/a

Respondent	Response	Comments
ESB	Yes	<p>We believe any move towards more marginal cash-out prices would be much more effective were it to be introduced alongside the move to single cash-out. Such a move would have reduced any potential negative impacts on parties by providing a stronger price signal to provide reducing imbalance and removed the inefficient reverse price mechanism currently in place.</p> <p>Although this position would have been preferable we are mindful of the timescales that would be involved in the introduction of such a modification at this stage, and would therefore suggest that introduction of more marginal cash-out should proceed at the earliest opportunity rather than delaying its introduction whilst a single cash-out modification is processed.</p>
Centrica	No	n/a
SSE plc	No	n/a
ScottishPower	No	n/a
First-Utility	Yes	<p>Introducing a modification at short notice where the adverse impacts have been identified but the full impact is not understood, especially on the vulnerable new entrant suppliers is not consistent the BSC objective C in terms of promoting competition.</p> <p>In a prolonged period of scarcity, it is possible that irreparable damage could result to parties because of the additional imbalance exposure.</p> <p>The presence of this risk, even if it does not materialise will consume a significant proportion of working capital, the result is our ability to fund growth will be curtailed.</p> <p>If this modification does not result in any additional generation coming forwards for this winter then customers will have lost the opportunity for a competitive supply for no gain. We therefore need to be confident that at short notice sufficient additional benefit will be derived from the implementation of this modification such that it outweighs the risks it creates. Additional analysis on the benefits and adverse effects must be performed to understand if there is any real benefit to the consumer.</p> <p>We would like to see how this suite of modifications fit into the overall picture of settlement reform</p>



Respondent	Response	Comments
		(settlement against actual usage as opposed to profiled usage as a result of Smart Metering).
EDF Energy	No	None provided.
DONG Energy Wind Power UK	Yes	<p>Further to our comments to Question 1 concerning other measures; DONG Energy are certainly supportive of the efforts to both minimise BM costs, and to maximise the efficiency of the BM mechanism and system as a whole. For example, we believe increased use of demand side response, where applicable, can help towards this end by pricing of accepted DSBR actions at VoLL (£3000/MWh) from winter 2015/16 (and any future years) and included in the calculation of cash-out price calculation only when it is less expensive than the most expensive balancing action. Similarly, we support the measure to price accepted SBR actions at VoLL (£3000/MWh) from winter 2015/16 (and any future years as required).</p> <p>DONG Energy believe these additional mechanisms should be given due time to be implemented and their efficacy tested before any further modifications are considered.</p>
Utilita Energy Limited	Yes	<p>Significantly more analysis is needed on the effects this change will have during times of system stress and under different market conditions. The analysis provided by Elexon looks backwards at a benign system, which was characterised by relatively flat system prices. However under forecasts of tighter system margins going forward and this will exacerbate the effects of P304 on BSC parties.</p> <p>If implemented, the change will have the effect of exposing parties to more marginal cash-out prices, pushing up the cost of business, increasing the levels of credit that need to be posted and having negative effects ultimately on consumers.</p>