

# Report Phase Consultation Responses

## P316 'Introduction of a single marginal cash-out price'



### Phase

[Initial Written Assessment](#)[Definition Procedure](#)[Assessment Procedure](#)[Report Phase](#)[Implementation](#)

This Report Phase Consultation was issued on 13 February 2015, with responses invited by 3 March 2015.

### Consultation Respondents

| Respondent                  | No. of Parties/Non-Parties Represented | Role(s) Represented                                    |
|-----------------------------|--|--|
| GDF SUEZ UK-Turkey          | 14/0                                   | Generator, Supplier                                    |
| SmartestEnergy              | 1/0                                    | Supplier   |
| UK Power Reserve Ltd        | 1/0                                    | Generator  |
| VPI Immingham               | 1/0                                    | Generator  |
| InterGen (UK) Ltd.          | 3/0                                    | Generator, ECVNA                                       |
| MPF Operations Limited      | 3/0                                    | Generator  |
| Co-Operative Energy         | 1/0                                    | Supplier   |
| First Utility Limited       | 1/0                                    | Supplier   |
| TMA Data Management Ltd     | 0/1                                    | Supplier Agent   |
| RWE Supply and Trading GmbH | 10/0                                   | Generator, Supplier, Interconnector User, ECVNA, MVRNA |
| EDF Energy                  | 8/0                                    | Generator, Supplier, Non Physical Trader               |
| Green Frog Power            | 0/1                                    | Generator  |
| DONG Energy                 | 1/0                                    | Generator, Supplier                                    |
| Drax Power Limited          | 1/0                                    | Generator, Supplier                                    |
| SSE plc                     | 6/0                                    | Generator, Supplier, Interconnector User               |
| RenewableUK                 | 0/1                                    | Trade Association                                      |
| Total Gas and Power Limited | 1/0                                    | Supplier, Interconnector User                          |

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| Respondent           | No. of Parties/Non-Parties Represented | Role(s) Represented   |
|----------------------|--|---|
| Vattenfall           | 1/0                                    | Generator, Supplier, Interconnector User, Non Physical Trader, ECVNA, MVRNA |
| ScottishPower        | 5/0                                    | Generator, Supplier, Non Physical Trader, ECVNA, MVRNA, Supplier Agent      |
| Cornwall Energy      | 0/1                                    | Consultant  |
| Centrica             | 15/0                                   | Generator, Supplier, Interconnector User, Non Physical Trader,              |
| E.ON                 | 7/0                                    | Generator, Supplier, Interconnector User, Non Physical Trader,              |
| Good Energy          | 1/0                                    | Supplier, ECVNA, MVRNA  |
| Eggborough Power Ltd | 1/0                                    | Generator   |
| Utilita              | 1/0                                    | Supplier  |
| Energy24 Limited     | 1/0                                    | Non Physical Trader, ECVNA, MVRNA   |

**Question 1: Do you agree with the Panel's initial recommendation that the P316 Proposed Modification should be rejected?**

**Summary**

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 18  | 6  | 2                  | 0     |

**Responses**

| Respondent           | Response | Rationale  |
|----------------------|----------|--|
| GDF SUEZ UK-Turkey   | Yes      | GDF SUEZ supports a single and more marginal cashout price but believes a hardwired PAR value of 1MWh from 2018 is not warranted. It would be better to wait and see how P316 Alternative affects balancing behaviour before making cashout prices any more marginal.  |
| SmartestEnergy       | Yes      | None provided.   |
| UK Power Reserve Ltd | No       | <p>UK Power Reserve believes that the Proposed Modification of P316 will better facilitate objectives (B) and (C) of the BSC objectives and that the rejection of it by the panel will not facilitate these objectives to the extent that the Alternative Proposal offers, the failure to move to PAR 1 represents a weakening of the benefits that the modification sets out to achieve and as such should not be rejected. P305 would have achieved these objectives to an even greater degree but this has since been rejected by the panel.</p> <p>The principle benefit of P316 will be to increase the pricing signals to flexible capacity to address the missing money required to incentivise a more robust, secure and reliable energy market. P316 will reward and promote the more efficient management of portfolios and offer incentive to greater response to demand changes whilst reducing future Capacity Market Auction clearing prices from what they otherwise maybe. Objective (B) will be better served through the sharpening of pricing signals to the market which will enable improvement in the provision of economic flexible capacity. Objective (C) will be better served by rewarding parties that have more balanced positions whilst more accurately representing the cost implications of imbalance, this is of particular importance with declining margins on capacity.</p> |
| VPI Immingham        | No       | No, we fully support all of the proposed reforms   |

| Respondent             | Response | Rationale   |
|------------------------|----------|---|
|                        |          | under the Electricity Balancing Significant Code Review. In particular, we believe that a single marginal price and a reduced PAR will deliver improved market signals and therefore better deliver the relevant BSC objectives. A PAR of 50MWh or lower is best placed to achieve this in our option. The proposed step change also provides industry with a firm view of future changes and therefore the time to change behaviour as appropriate before the tighter PAR of 1MWh is introduced.   |
| InterGen (UK) Ltd.     | Yes      | The full package of proposals set out in p305 (Proposed Modification) have been the subject of extensive consultation and detailed review over a number of years whereas, for example, the change to PAR100 (rather than PAR50 to PAR1) appears to be the result of an unhealthy compromise with little economic justification for the position reached. However, if P305 is not approved, then InterGen would support the implementation of the Proposed Modification as an alternative approach signalling, as it does, a clear direction towards fully marginal pricing.   |
| MPF Operations Limited | No       | <p>We support a move to a single marginal price, but recognise the concerns that parties, notably suppliers, have with the volatility that a single marginal price can bring. However, we believe both the original and the alternative modifications would better facilitate the relevant objectives.</p> <p>When judged against the baseline, and in looking at the relevant objectives, we believe both modifications would enhance the economic operation of the system and promote competition between parties. Parties should be encouraged to work at balancing their portfolios and a single marginal price will encourage that. The better parties balance themselves the more residual a role NGC need to take as the System Operator. In the longer term these incentives should add to competition, improve efficiency and drive down prices for customers.</p> |
| Co-Operative Energy    | Yes      | Yes. While we support the proposed single imbalance price, we believe that the proposed reduction in PAR to 50MWh upon implementation with a further reduction to 1MWh on 1 November 2018 will create unmanageable hedging and imbalance exposure risks for smaller non-vertically integrated market participants. This will then act as  |

| Respondent                  | Response | Rationale   |
|-----------------------------|----------|---|
|                             |          | <p>a barrier to competition and new market entry.</p> <p>We also note and concur with the CMA's concerns in their update statement of 18 February 2015 that the proposed large reductions to PAR contained with P316 run the risk of overcompensating generators when coupled with the effects of the Capacity Market, thus resulting in further distortions in competition.</p>  |
| First Utility Limited       | Yes      | Please refer to our previous consultation responses.  |
| TMA Data Management Ltd     | No       | None provided.  |
| RWE Supply and Trading GmbH | No       | <p>As stated in our proposal the modification would better facilitate Applicable BSC Objectives (b) and (c) (based on P305 justification):</p> <p>The proposed changes to the cash-out price calculation make prices more reflective of the value to consumers of balancing, particularly during times of very tight margins. In doing so, market participants will be incentivised to make more efficient balancing and investment decisions. This should result in reductions in the total costs (to the SO and market) of maintaining a balanced system, whilst presenting savings on the costs of delivering secure electricity supplies in the future.</p> <p>Reflecting the value that actions deliver supports effective competition by aligning competitive incentives of market participants with the interests of the consumer. A single marginal cash out price eliminates distortions in the arrangements that currently impede value reflectivity, thereby supporting effective competition that drives value for the consumer.</p> <p>Strengthening the energy imbalance price signal, through PAR reform will incentivise market participants to trade to balance their positions ahead of Gate Closure. This will result in increased liquidity in the forward market and benefit competition by encouraging investment in flexible capacity (flexible generation, demand participation and other technologies). The inclusion of a single imbalance price removes the existing inefficient price spread and for many market participants, in particular smaller parties who are less likely to drive the system length. This should reduce net</p> |

| Respondent       | Response   | Rationale  |
|------------------|------------|--|
|                  |            | <p>imbalance costs and therefore help to mitigate the potential imbalance risk faced by market participants.</p>   |
| EDF Energy       | Yes        | <p>EDF Energy is supportive of the overall goals of P316, and believes that some aspects of the proposed modification have merit. However, we agree with the Panel's initial recommendation that the modification should be rejected.</p> <p>EDF Energy supports the introduction of a single cashout price, although we have some concerns that this could negatively affect within-day liquidity as described in our response to the Assessment Procedure Consultation. On balance, we believe that this would have a positive effect against BSC Objective C.</p> <p>We believe that a reduction in PAR to 50MWh, and more importantly to 1MWh, is inappropriate, due to the potential for volatility due to granularity at the balancing margin, and anomalous effects of real physical balancing on half-hourly trade imbalance. These concerns were echoed in Stephen Littlechild's submission to the CMA investigation into the energy markets. We feel that a value of 100 MWh value would mitigate these concerns and would be more appropriate, at least until there is more experience of behavioural changes resulting from Electricity Balancing Significant Code Review (EBSCR) changes. We therefore believe that this area of the modification would have a negative effect against BSC Objective C.</p> |
| Green Frog Power | Yes and No | <p>We do not agree with the Panel's rejection of the P316 proposed modification. The panel suggests that implementation would not be preferable to the current situation, in contrast to our own view, which is that P316 would significantly improve the market functioning. We think it is imperative that cash out prices are made reflective of real time system requirements and the costs of meeting those requirements in order to optimise the costs of the power system in Great Britain.</p> <p>We believe that P316 will impact the following BSC objectives as follows:</p> <p>B The efficient, economic and co-ordinated operation of the National Transmission System</p> <p>By virtue of ensuring that prices are reflective of the supply/demand characteristics in every settlement</p>   |

| Respondent  | Response | Rationale  |
|-------------|----------|--|
|             |          | <p>period, the signals for appropriate investment (at the right level and type) and operational planning will be sharpened, resulting in an economically efficient outcome.</p> <p>All elements of P305 are relevant from this perspective, single price, PAR50, the introduction of a Reserve Scarcity Price function, and VOLL pricing for disconnections. In the absence of an adoption of P305, we think that at the very least, the proposed modification P316 should be adopted as it contains key measures that will improve market efficiency and they can be implemented in a timely manner.</p> <p>For the record, however, please note our preference for an immediate move to PAR1, rather than the gradual progression. We believe that there is no identifiable overall benefit to a gradual change, particularly in the context of a simultaneous move to single price.</p> <p>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</p> <p>Sharpening the imbalance price signals will have the effect of increasing the incentive to ensure that positions are balanced prior to gate closure. This will increase market liquidity, thereby increasing competitiveness and improving the outcome from the perspective of efficiency, for all stakeholders, including customers, suppliers and generators.</p> <p>We agree with the Panel's decision to reject P316 if it is rejected on the basis that P305 is preferable.</p> |
| DONG Energy | Yes      | <p>DONG Energy does not believe that higher cash-out prices necessarily drive efficiency in the Balancing Mechanism (BM) and that, as a consequence, there will be subsequent material change towards investment in more flexible and fast response plant.</p> <p>In our view, P316 Proposed Modification as currently designed, with an ultimate reduction to PAR1, will have a detrimental distributional effect on smaller market participants, particularly on those with challenging demand and/or generation forecasts that cannot react to signals from the new PAR regime. DONG Energy also recognises the concerns of some Panel members and the Competition Market Authority (CMA) that a fully marginal imbalance price could have the potential to</p>   |

| Respondent         | Response | Rationale   |
|--------------------|----------|---|
|                    |          | <p>allow for some market participants to exercise market power. DONG Energy believes that as a consequence of high imbalance prices, parties with similar trading characteristics may adopt extreme inverse positions to the market which could create a risk of increased imbalances.</p> <p>Historic analysis (completed by Elexon) showed, particularly in a PAR1 scenario, that the number of occasions imbalance prices become negative will significantly increase. Overall the analysis around P316 and P305 covered a period of relatively mild winters and is therefore unlikely to accurately represent the actual impact of the proposed changes under more severe future market conditions.</p> <p>DONG Energy is also concerned that the expectation of system stress could incentivise generators to hold back or carry reserves (eg, part loading plant more than actually required) from the wider market to protect themselves from high imbalance prices. This form of self-insurance may act to exasperate the problem particularly when this is in addition to the reserves procured by the GBSO to cover demand/ generation uncertainties (the system is predominately 'long').</p> <p>This could have a significant impact on both the accuracy of price signals to the market and could lead to higher imbalance volumes when compared to a less marginal price calculation.</p> <p>On this basis DONG Energy believes that a reduction of PAR to PAR1 will not better facilitate the BSC applicable objective C and D. Overall therefore DONG Energy agrees with the Panel's initial recommendation to reject P316 Proposed Modification.</p> |
| Drax Power Limited | Yes      | <p>Overall we do not believe that P316 Proposed should be approved. We believe that it will not better facilitate BSC Objectives (b) and (c). We are of this opinion for the following reasons:</p> <p>We agree that reducing the PAR value is likely to increase incentives to balance and therefore enhance competition and transmission system operation. However, we remained concerned that a move to PAR1MWh will increase the risks associated with system pollution and as such do not believe PAR1MWh is justified. We note the CMA's updated Issues Statement references concerns relating to</p>   |



| Respondent | Response | Rationale  |
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|            |          | <p>PAR1MWh . We consider that in light of the CMA's investigation (and owing to the weight of the argument also) it would be sensible to adopt a more cautious approach. Implementing PAR100MWh appears a reasonable compromise in enhancing cost reflectivity and mitigating the risk of system pollution.</p> <p>Moreover, we remain concerned that the adoption of a single cash-out price will reduce participants' incentives to balance and also result in a reduction in short term liquidity, especially at peak times.</p>  |
| SSE plc    | No       | <p>SSE continues to believe that the value of flexibility and risk is not sufficiently priced into the market currently, inappropriately dampening prices, undermining the credibility of cash-out as an incentive price, and increasing unnecessarily the overall cost of residual balancing.</p> <p>SSE remain concerned that a diluted cash-out signal will continue to weaken incentives to trade forward and invest in the right type of products to provide flexibility and peak security when required. This will undermine investment in flexibility, and as a consequence increase the cost to the consumer to balance the system in the long-term (as demonstrated in Ofgem's modelling for the EBSCR) and potentially increase risk of failure to deliver security of supply, as supply and demand become increasingly unpredictable.</p> <p>SSE remain convinced that marginal pricing will provide the most efficient balancing and flexibility signal, and strengthen the relationship with forward markets, encouraging innovation and investment in the development of flexible products to meet the needs of increasingly variable supply and demand curves. It also encourages investment in reliability to ensure that the physical assets developed to back flexibility products actually deliver when they are required at times of system stress. Additionally the removal of the dual price and associated cost of the spread removes unnecessary cost to all participants in the market, alleviating some of the additional cost incurred to price risk of exposure to high price cash-out.</p> <p>We continue to support the proposal to reduce PAR to 50 MWh in 2015 and 1 MWh in 2018 therefore and we believe that overall the proposal better facilitates objectives b) and c).</p> |

| Respondent                  | Response | Rationale  |
|-----------------------------|----------|--|
| RenewableUK                 | Yes      | <p>RenewableUK notes that some of the policy context within which the Electricity Balancing Significant Code Review was developed has moved in recent months. In particular, it is significant that the Competition and Markets Authority is addressing the reforms of the balancing mechanism in its ongoing Energy Market investigation: in the recent issues statement update, the CMA voiced support for single cash-out but expressed concerns that very marginal balancing costs and the inclusion of Reserve Scarcity Pricing may not be the most economically efficient option for the balancing mechanism. It would therefore seem appropriate to reject all modifications which include either a move to PAR1 or the inclusion of RSP (or both), at least until the CMA has reported. Since the P316 Proposed Modification includes a move to PAR1, then RenewableUK agrees that it should be rejected.</p> <p>At a higher level, it is also the case that the European Commission, as part of its Energy Union Communication of 25 February, is intending to bring forward a new market design later this year, with legislation to implement this planned for 2016. It would appear prudent to limit change to the balancing arrangements in the UK until this design is clearer: if major change was to be implemented in the UK now, and then the Commission brought forward a design that required further change, there would be two disruptive changes to the system in quick succession. This would appear to be against the economic and efficient operation of the system, and also hostile to competition in generation, with only larger players able to cope with such an amount of change.</p> |
| Total Gas and Power Limited | Yes      | <p>BSC Objectives b), c) &amp; d) would not be met and BSC Objective a) would not necessarily be better achieved than under the current arrangements. Lowering the PAR to 50 MWh upon implementation and then to 1MWh by 2018 would create a benefit to those suppliers who can react to a perceived tightening of the system. Whilst there would be an incentive for all participants to forecast correctly or more accurately, large vertically integrated companies with flexible or reliable generation fleets would be able to provide optionality to their related supplier arms, which wouldn't be available to other independent suppliers via traditional market mechanisms. To the contrary of creating liquidity in</p>   |

| Respondent    | Response | Rationale  |
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|               |          | <p>the short term market, there is no incentive for these suppliers to provide short term contracts to other participants. Rather, they are more likely to withhold their flexibility to ensure their own positions are fully protected, before providing volume to other non-vertically integrated participants. There is an inherent risk that by withholding volume, which has historically been placed to market, vertically integrated companies may move to even further extremes by self balancing after gate closure, which in turn creates pressure and as yet, unknown effects on the Transmission Operator (failure on BSC Objective b)). Those participants that are medium to small sized and particularly those who have little or no vertical integration would therefore be at a disadvantage, failing to achieve BSC Objective c). To the contrary of more accurate forecasting, the proposed solution would encourage participants to nominate inflated positions, creating a net long GB forecast and reducing the efficiency of the balancing mechanism. The sizeable downside to introducing the P316 Proposed Modification could be the exit of many of these suppliers, because of their inability to react to the market signals. The move to a single market price is also an inhibitor to liquidity. Under the dual price system, it is noted that this has a level of complexity, may not fully reflect the value required when the system is affected by scarcity and incurs a level of cost due to inefficiency. However, the dual price system is mature enough to be fully understood, and does allow a sustainable level of trading to occur. By moving to a single market price, there is less of an incentive by trading parties, thus impacting on current liquidity.</p> |
| Vattenfall    | Yes/No   | <b>Confidential response provided.</b>   |
| ScottishPower | Yes      | <p>We believe that PAR=100MWh is an appropriate first move towards more marginal cash-out prices. However, a move to PAR=50MWh in November 2015 will not give parties sufficient time to adjust their strategy to significantly more extreme imbalance prices. By providing some of the “missing money” more marginal cash-out prices may incentivise investment in new flexible generation capacity thus better facilitating the operation of the National Electricity System. However, we are uncomfortable with a “hard wired” move to PAR=1MWh in 2018 for the reasons outlined at Q3 &amp; 6 below. Thus, we find P316 Proposed</p>   |

| Respondent      | Response | Rationale   |
|-----------------|----------|---|
|                 |          | <p>Modification only marginally better achieves Applicable Objective (b). Removal of dual imbalance prices will remove the existing imbalance price spread and encourage Parties to balance their positions more efficiently. It should reduce net imbalance costs for many Parties, particularly smaller ones. The analysis provided shows that more marginal pricing will have significant distributional impacts on parties and potentially increased credit requirements on independent suppliers and independent wind generators. Therefore we do not believe that P316 Proposed Modification better achieves Applicable Objective (c). Overall, we do not believe that P316 Proposed Modification better achieves the Applicable Objectives and should be rejected.</p>   |
| Cornwall Energy | Yes      | <p>We are concerned about the impacts against applicable objective c) in respect of facilitating competition of moving to PAR50 and then to PAR1. Making PAR more marginal has greater impacts on smaller parties in comparison to larger vertically integrated parties as a result of their exposure to imbalance prices, which is made more acute through barriers to trade and often less sophisticated risk management capability.</p> <p>In contrast we welcome the introduction of a single pricing mechanism as it reduces complexity and rewards those providing reducing imbalances, allowing smaller parties to benefit from their positions. However, we note that most of the analysis conducted so far has taken into account historical data on imbalance and it has been difficult to assess the behavioural impact of this change: some market participants have concerns it could damage liquidity through parties withholding flexible capacity whilst some have said it will increase liquidity by encouraging financial parties into the power market.</p> <p>We are also concerned that a marginal imbalance price based on a volume of less than 100MWh will not accurately reflect the cost to the system operator of balancing the system over a particular half hour: National Grid takes many actions during a settlement period and using only one action will not be reflective of the true cost. Therefore we do not support a reduction of PAR to 50MWh or a move to PAR 1MWh on the basis of the information provided thus far. This suggest there are question marks over</p> |

| Respondent | Response | Rationale   |
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|            |          | the benefits claimed under Objective B ( the efficient operation of the National Transmission system)   |
| Centrica   | Yes      | <p>We support the view that balancing actions should not be viewed as merely incremental and could be taken sequentially or sometimes even forward-looking. Therefore the adoption of a PAR50 leading to the implementation of PAR1, would not represent the marginal cost of balancing and therefore does not improve applicable objective (d).</p> <p>We also have concerns that such an extreme value of PAR could lead to a single plant setting the cash-out price and could become subject to manipulation which does not improve applicable objective (b).</p> <p>Such a low PAR value also results in an increased risk of system pollution in the cash-out price against applicable objective (b) and moves away from reflecting the costs incurred by National Grid in balancing the system.</p> <p>We have some concerns that the adoption of a single cash-out price will detrimentally impact intraday liquidity as there will be little or no differential between price expectation on which to trade. This will increase day-ahead liquidity but could cause issues for market participants who wish to update their positions intraday, we suggest this is contrary to applicable objective (c).</p> <p>We therefore do not support the implementation of P316 Original.</p> |
| E.ON       | Yes      | <p>A move straight to Single Imbalance Pricing using a PAR of 50MWh in 2015 without the 'complications' of LOLP, RSP, VoLL, volume corrections etc. suggested by P305 is preferable to that proposal. Single pricing would be a more straightforward arrangement reducing risks to parties, thus potentially beneficial under Objectives C and D. However we do not believe that a more marginal imbalance price would necessarily be an improvement on the current arrangements, particularly when more intermittent generation is due on the system in the next few years. In particular we do not support PAR 1MWh, either in itself, or P316 Proposed's hardwiring of a change to PAR 1MWh in 2018. It would be prudent to assess the impact of any change(s) made in 2015, through P316 Proposed or other measures, before determining whether or not further changes should</p>   |

| Respondent  | Response | Rationale   |
|-------------|----------|---|
|             |          | <p>be made.</p> <p>Even without an RSP/VoLL value in the price stack PAR 1MWh could produce volatile cashout prices difficult for parties to manage; while tagging errors and the distortion of prices in subsequent periods from an action taken to resolve a concern in an earlier period remains a concern. These are potential negative impacts under Objectives B, C and D, while the fear of high cashout costs if short might lead to parties taking longer positions necessitating more SO balancing actions, is a further negative under Objective B.</p> <p>If PAR is to be made more marginal, we do not see strong arguments for it to be lower than 100MWh, given typical NIV values and the P305/316 Workgroup's finding that there is a more significant effect on prices of reducing PAR from 250MWh to 100MWh. Consequently we agree that P316 Proposed should be rejected.</p>  |
| Good Energy | Yes      | <p>Overall we consider that the P316 Proposed Modification does not better facilitate the Applicable BSC Objectives and agree with the Panel's initial recommendation that it should be rejected. We believe the Proposed Modification to be neutral to all the Objectives other than (b) and (c) and our assessment of it in relation to Objectives (b) and (c) is set out below.</p> <p>Objective (b)</p> <p>The Proposed Modification would better reflect the value of flexibility, which would improve signals for investment in new flexible generation and demand side response, and for the retention of existing generation that would otherwise be mothballed. This should improve security of supply and enable the system to be balanced more efficiently, thereby reducing total costs to System Operator (and to consumers) of maintaining a balanced system.</p> <p>The Proposed Modification would likely result in highly volatile and unpredictable cash-out prices which some parties will be unable to react to. However this will incentivise parties to balance their positions more accurately. Furthermore, parties may elect to hold capacity for themselves until close to Gate Closure, to ensure their own position was secure, before trading the spare capacity close to Gate Closure, thereby adversely affecting liquidity.</p> |

| Respondent | Response | Rationale   |
|------------|----------|---|
|            |          | <p>We share concerns raised by the Modification Workgroup about the impact of low PAR values on possible distortions to cash out prices due to erroneous flagging and tagging of balancing actions, which creates the potential for an action that should have been tagged out to go on to set the imbalance price. Also, that PAR 1 would amplify existing inefficiencies in the current calculation whereby the SO can sometimes accept a high-priced offer in one settlement period to resolve an issue at that time, but because of the dynamics of the BM Unit called upon, that offer may have to persist for several hours, impacting future settlement periods where a lower-priced offer would otherwise have been accepted, creating market distortion for subsequent settlement periods.</p> <p>Objective (c)</p> <p>By better rewarding flexibility the Proposed Modification would improve signals for investment in flexible generation, thereby facilitating competition in generation.</p> <p>The analysis undertaken by Elexon shows that the introduction of single cash out prices benefits the smaller parties in particular, but that this benefit is consistently eroded as PAR is reduced. However, the analysis has been undertaken during a period of relatively benign market conditions and P316 will doubtless lead to behavioural change. Elexon has made no attempt to model how the distributional effects might change as a result of behavioural change and significantly tighter system conditions. Ofgem's EBSCR analysis only assessed the EBSCR conclusions as a whole package for relatively broad party types, and did not account for individual elements, making it difficult for individual parties to assess the likely impact on themselves of just the single marginal price elements. Also the EBSCR scenarios were undertaken at a time when expectations for power station fuel prices were somewhat different to what they are now. Hence the analysis undertaken provides limited insight to the distributional effects of the Proposed Modification. We would expect the introduction of single cash out prices to be of most benefit to smaller parties who tend be less able to balance their positions and thus disadvantaged most by the present inefficient price spread. On the other hand, larger trading parties who are better able to afford sophisticated forecasting systems and other</p> |

| Respondent | Response | Rationale   |
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|            |          | <p>associated resource, such as 24/7 trading functions, &amp; experience, should be better able than smaller parties to adjust to a market with sharper cash out prices from lower PAR.</p> <p>We are very concerned that the Proposed Modification could have a detrimental impact on liquidity in the market, which would make it harder for smaller participants to trade at reasonable prices. During periods of scarcity, liquidity in the intraday and prompt markets may dry up, leaving independent parties exposed to very high imbalance prices driven by low PAR. During the last periods of significant scarcity in the period 2005-2008 liquidity in the prompt market became a major issue to market participants. Previously liquid markets dried up with very little volume trading and with huge price spreads of circa £700-1300/MWh.</p> <p>We are particularly concerned by the potential impact of extreme events on small renewable suppliers and independent (non-portfolio) generators where, if the wind does not blow or a generator trips at times of system stress, their imbalance is penalised by very severe cash out prices due to the effect of a low PAR value. This is a significant risk which will add to their overall costs and could potentially put them out of business.</p> <p>By making cash-out prices more volatile a low PAR would be expected to increase credit cover requirements although this would be mitigated to an extent by single cash-out prices. An increased credit cover requirement disadvantages smaller parties who tend to find it more difficult to provide the funding, and have a higher cost of capital, and so results in cash being utilised that would otherwise be used by the rest of the business.</p> <p>With PAR 1 there is increased likelihood of cash-out prices being set by only one or two parties which provides the potential for those parties to exercise market power to the detriment of competition.</p> <p>We consider that any significant reduction in PAR should be phased and a move from 500 to 50 is too large a change to make in a single step. Parties need time to time to adapt to the more challenging market conditions and we would prefer any reduction in PAR to be to 250 initially.</p> |
| Eggborough | Yes      | We are concerned that P305 original has not been fully defined and therefore cannot be signed off. It   |



| Respondent | Response | Rationale   |
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| Power Ltd  |          | <p>is unacceptable to change a commercial contract, which the BSC is, without knowing what the exact change will be. We recognise the work that the group has done on trying to create a dynamic LOLP function, but this does not yet appear to have resulted in the definition of a robust mechanism that would provide a transparent signal to the market. We do not object to the RSP in principle, but there is little point in a signal to which parties cannot respond.</p> <p>On P305A, the use of a static function seems unlikely to address the changes in the plant dynamics that are due to occur over the coming years. There seems a real risk that the signal will not reflect the actual state of the system and therefore could see the RSP set prices at the “wrong” times. If it is worth implementing an RSP then it is better to do it properly and not risk creating signals that result in uneconomic behaviour.</p> <p>EPL would therefore suggest that the P316 alternate is implemented and work on the elements of P305 that are outside the scope of P316 are addressed under a new modification. This will allow additional time to get the signals “right” while still moving towards the package of changes Ofgem proposed in their SCR.</p> <p>EPL supports both P316 and P316A and believes both would better facilitate the relevant objectives. However, EPL shares the concerns that parties have expressed around a move to a marginal price in one step. We therefore support implementation of P316A as the better of the two options as it would better facilitate the objective around competition between parties compared to the P316 original. The further reduction of PAR over time remains a possibility and allowing parties to adjust their behaviour over time would be a prudent approach.</p> |
| Utilita    | Yes      | <p>As set out in our submission to the assessment phase, we agree that the P316 modification should be rejected.</p> <p>For our full view against each of the applicable BSC objectives, please see our assessment phase submission, answer to question 1. Which is appended to this submission. Our comments in full remain applicable, this submission should also be read in conjunction with our submissions on P305</p>  |

| Respondent | Response | Rationale  |
|------------|----------|--|
|            |          | <p>both for the assessment and report phases. We reproduce some of the key points below:</p> <p>P316 has two elements, the introduction of the single imbalance price, which Utilita supports and the reduction of PAR Value to 1MWh which Utilita strongly opposes. We have previously set out our views on the better facilitation of the relevant objectives by introducing a single imbalance price. This response therefore concentrates on the adverse effects of reducing PAR Value to 1MWh.</p> <p>Utilita's views on these aspects of both P316 and P305 are the same, therefore sections of our submission are replicated.</p> <p>In relation to <b>BSC objective B</b> (efficient and economic operation of the transmission system), we believe that implementation of a PAR value of 50MWh and 1MWh will not provide material benefits in respect of BSC Objective B. Implementing marginal pricing can only provide benefits to the economic and efficient operation of the system where participants are able to respond to the price signals given. In the case of the imbalance price, the price signal is not available until after the event. Without sight of the imbalance price and with no ability to alter NHH demand in the short term, the suppliers cannot respond to marginal price signals. Reducing PAR (particularly to 50MWh and then 1MWh) is merely exposing suppliers to an ex-post increase in costs which is difficult to forecast and price into contracts. The suppliers are simply not in a position to respond to the prices generated by the changes in PAR. As suppliers cannot respond to the signal, this proposal would not better facilitate objective B.</p> <p>In relation to <b>BSC objective C</b> (competition in the generation, supply, purchase and sale of electricity), the proposal will expose all parties to less predictable and increased imbalance costs. The analysis previously included in the P314 consultation demonstrated the distributional impact among trading parties of a reduction in PAR to 250MWh. However the directional conclusions from this analysis would be equally valid for a reduction to 50MWh then 1MWh. The analysis showed that the impact would not be expected to be equivalent across trading parties and hence would introduce competitive distortions between different types of suppliers.</p> |

| Respondent | Response | Rationale   |
|------------|----------|---|
|            |          | <p>Smaller suppliers, especially independent domestic and non-domestic suppliers, and renewables generators will be relatively more exposed to imbalance prices 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. As noted under Objective B, in addition at times of stress/scarcity, liquidity would fall unduly impacting non vertically-integrated players.</p> <p>Higher balancing costs will disproportionately impact smaller suppliers who will inevitably have a greater proportion of their demand in balancing. This is not because smaller suppliers increase risk, it simply reflects trade sizes, portfolio stability and practical limitationS on demand forecasting accuracy relative to larger players. National Grid as NETSO should balance the national aggregate position, with robust incentives to minimise balancing costs for the benefit of all and transparent reporting. If this is not the case this will lead to inefficient costs and all customers paying more than is necessary. Higher imbalance prices as a result of a reduction in PAR to 1MWh would also impact NETSO activity and their ability to balance the national aggregate position cost effectively.</p> <p>The introduction of a single cashout price would be an improvement and would better facilitate the applicable BSC objectives. However, this would not be outweighed by the potential for increased volatility in imbalance prices and the distributional effects between players which may even impact players' ability to participate effectively in the market.</p> <p>Utilita therefore considers that reducing PAR value as proposed would not better facilitate objective C, even with the mitigating impact of the single imbalance price proposed.</p> <p>In respect of BSC Objective D (promoting efficiency in the implementation and administration of the balancing and settlement arrangements), Utilita considers that P305 will not better facilitate objective D.</p> <p>Credit provision is already a significant cost in the</p> |

| Respondent       | Response | Rationale   |
|------------------|----------|---|
|                  |          | <p>industry, particularly to smaller players. The reduction in PAR would be expected to increase imbalance prices significantly. This in turn will increase credit requirements and costs for all players compared with the existing baseline.</p> <p>The increase in imbalance prices and reduced predictability would also lead to additional administrative and analytical costs, especially on smaller, less diversified portfolios. This increased burden relative to the status quo would not improve efficiency in the implementation and administration of the credit arrangements needed.</p> <p>On this basis Utilita does not consider that P316 implementation would better facilitate objective D.</p>   |
| Energy24 Limited | Yes      | <p>With regard to BSC Objective (b) of "The efficient, economic and coordinated operation of the National Electricity Transmission System", the proposed move to a single imbalance price will radically weaken the incentive to participants to balance their own position. As it stands, accepting an imbalance price can never generate a return more favourable than that of RPD (APX Endex spot market average) for the settlement period in question, with that only attainable from the Reverse Price when a party's imbalance is in the opposite direction to that of the system. If a party has a potential to receive a high positive rate - or, alternatively, to pay a very low negative rate - for imbalancing in the opposite direction to that of the system, the party may choose to prefer to imbalance and stand to receive the extreme system price rather than to avoid imbalance as is currently the case. Parties deliberately choosing to imbalance would make the job of the System operator considerably harder.</p> <p>With regard to BSC Objective (c) of "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", the proposed move to a single imbalance price would have a disproportionate effect on smaller market participants. The consideration of average pricing has not been overly useful as it is the extreme prices that drive collateral costs and business impacts, especially for the smaller players. Single extreme events might risk ending, or at least severely damaging, the business of a small market participant through no fault of their own. This would</p> |

| Respondent | Response | Rationale   |
|------------|----------|---|
|            |          | change the risk profile for a business and could lead to a reduced number of market participants and increase the already significant barriers to new entrants. Competition could be potentially reduced and the end user could potentially lose out. The modelling of many significant factual historic events and the changes in prices would be welcome as it allows prices to see the relative extent, under real scenarios, of the potential impact. |

**Question 2: Do you agree with the Panel's initial recommendation that the P316 Alternative Modification should be approved?**

**Summary**

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 17  | 8  | 0                  | 1     |

**Responses**

| Respondent             | Response | Rationale  |
|------------------------|----------|--|
| GDF SUEZ UK-Turkey     | Yes      | A single and more marginal cashout price will improve incentives for parties to balance, better facilitating objectives b, c and d.  |
| SmartestEnergy         | Yes      | None provided.   |
| UK Power Reserve Ltd   | Yes      | UKPR would prefer the Proposed Modification to be approved we are also supportive of the alternative modification in that it does achieve the objectives set out by the modification but to a much lesser extent than the proposed modification or P305. The applicable BSC objectives are the same as for the main modification, we do stress however that limiting the impact of this modification will dilute any improvements brought about which we believe to be against the best interests of the stability of the energy market and against the objectives of the BSC. |
| VPI Immingham          | Yes      | In the absence of a suitable alternative, we believe that the P316 alternative modification should be approved. However, we think that a compromise of, say 50MWh, would have been a more appropriate value to use. We do not expect significant behavioural change with a PAR of 100MWh, especially with no expected future change.   |
| InterGen (UK) Ltd.     | No       | None provided.   |
| MPF Operations Limited | Yes      | We believe there is very little difference between PAR 50MWh and PAR 100MWh, so it would be simpler to go towards a fully marginal system as quickly as possible (see arguments outline above). The analysis done by the working group suggests that few balancing periods are impacted by the lower PAR value, but for market participants it should be easier to see based on the plants called for balancing actions what the cash-out price is likely to be.   |

| Respondent                  | Response | Rationale  |
|-----------------------------|----------|--|
| Co-Operative Energy         | Comments | <p>We would prefer for a single imbalance price to be introduced separately to any reduction in PAR and for a period of time to be allowed to assess the impacts of this prior to any reduction in PAR taking place. However, of the options available, we believe that the alternative modification prepared by the workgroup which introduces a single imbalance price while reducing PAR to 100MWh upon implementation is a less worse option in terms of potential negative impact upon competition and new market entry than P316 as originally proposed. It should also lead to a lesser risk of overcompensation for generators when coupled with the Capacity Market, again furthering competition.</p> <p>Nevertheless, for the avoidance of doubt, our belief is that a lesser reduction of PAR than contained in either the P316 Proposed Modification or the P316 Alternative Modification will create the proper incentive to balance in a tight network situation while avoiding an impact on competition likely to outweigh the security of supply benefits that this change might result in.</p> |
| First Utility Limited       | Yes      | Please refer to our previous consultation responses.   |
| TMA Data Management Ltd     | No       | None provided.   |
| RWE Supply and Trading GmbH | Yes      | None provided.   |
| EDF Energy                  | Yes      | EDF Energy believes that the alternative value for the reduction in PAR to 100 MWh mitigates our concerns listed in Question 1, above. Given the mitigation of these concerns, we believe that this modification would have a positive effect against BSC Objective C, and so should be implemented.   |
| Green Frog Power            | No       | <p>We do not think that the move to single pricing as the lone reform is sufficient to meet the objectives of the BSC, for the reasons outlined in our response to Question 1.</p> <p>Furthermore, we believe that if this reform is implemented and the remainder of the proposed modification included in P305 and P316 are delayed, we worry that the opportunity will be lost. The risks of delay will only increase the risk that the reforms are not appropriately reflected in Capacity Market bidding behaviour. We believe that this will increase the risk of over-reward that the CMA report alludes to, which, in addition to potentially higher costs for</p>   |

| Respondent         | Response | Rationale   |
|--------------------|----------|---|
|                    |          | customers, could result in reputational damage to the industry  |
| DONG Energy        | Yes      | <p>DONG Energy recognises the Panel's initial voting and believes, on balance, given the available set of options, that the P316 Alternative Modification would represent the best solution and better facilitate the applicable BSC objectives than the P316 Proposed Modification.</p> <p>Nevertheless, we remain of the view that PAR100 will not be at a high enough level to eliminate the risk of market distortions for the reasons we have outlined in our response to Question 1. In particular, the potential adverse impact on those generators with variable production and small suppliers with challenging demand forecasts. These parties will be more exposed to overall higher and volatile imbalance prices without being able to mitigate or hedge this risk.</p> <p>Furthermore, such a radical reduction in PAR without the necessary lead time for market participants to adapt to the new environment could adversely distort the market, at least in the short term. Additionally, we are disappointed that even with the majority of the assessment consultation respondents preferring the phased approach to a PAR250, upon implementation, followed by PAR100 later, this was still not considered as an Alternative Modification.</p> <p>We also believe that any implementation would be better implemented over the summer period in order to ease the transition to the new regime rather than the winter period, when the system is more prone to times of stress.</p> |
| Drax Power Limited | No       | <p>We believe that P316 Alternative will not better facilitate BSC Objectives (b) and (c), although we consider that it is unlikely to be great deal worse than the Baseline arrangements. On the one hand, the reduction in the PAR value to 100MWh is an improvement on the Baseline, increasing cost reflectivity and enhancing competition and transmission system operation. On the other hand, a single cash-out price risks diluting incentives for parties to balance as well as reducing short term liquidity, particularly at times of system stress. It is difficult to come to a firm conclusion as to whether the PAR change is more beneficial than the single price change or vice-versa. On balance we do not</p>   |



| Respondent                  | Response | Rationale  |
|-----------------------------|----------|--|
|                             |          | believe it can be demonstrated that P316 Alternative is better than the current arrangements. However, if the Authority is minded to change the imbalance arrangements, we believe it should approve P316 Alternative.   |
| SSE plc                     | Yes      | For the same reasons as Q1. The benefits of single marginal pricing outweigh the drawbacks, better facilitating objectives b) and c), albeit that PAR 100 will be less effective than it could be given the corresponding removal of dual pricing.   |
| RenewableUK                 | Yes      | RenewableUK believes that the move to single cash-out would be beneficial, and this change would receive wide support across all types of generator. We also believe that the case has not been made for a move to PAR1 and that any reduction in the PAR value should be limited. Since the P316 Alternative Modification delivers closest to this position across the four options contained in both P305 and P316, we support it as the least-worst option. We continue to be concerned about the impact of the reduction in PAR value on variable generators like wind, and therefore we would wish to combine this support with a move to implement this modification later than the proposed date (see below). |
| Total Gas and Power Limited | No       | BSC Objectives b), c) & d) are not met and BSC Objective a) would not necessarily be better achieved than under the current arrangements. Even with a reduced PAR of 100MWh, the points raised in answer to Question 1 are still valid. Small and Medium sized businesses would struggle to hedge their positions ahead of delivery, and liquidity would be shifted further to Gate Closure or as previously mentioned, past it into a "self balancing" regime. The Transmission Operators' ability to "pre-instruct" in the lead up to settlement would be more difficult, and overall the Transmission Operators role would centre more on very short term balancing of the market.                                |
| Vattenfall                  | No       | <b>Confidential response provided.</b>   |
| ScottishPower               | Yes      | P316 Alternative Modification is better than the Proposed Modification due to the more conservative approach towards marginal pricing. We believe that a move to PAR=100MWh in November 2015 is an appropriate first move towards more marginal cash-out prices will give parties sufficient time to adjust their strategy to more extreme and volatile  |

| Respondent      | Response | Rationale  |
|-----------------|----------|--|
|                 |          | imbalance prices before possible consideration of a further reduction in PAR at a future date. Overall, we believe that P346 Alternative Modification better achieves the Applicable Objectives and should be implemented.   |
| Cornwall Energy | Yes      | Yes, we welcome the introduction of a single price as summarised in our answer to question 1. We believe a higher PAR value is more appropriate and reflective of system costs than a lower PAR value.   |
| Centrica        | Yes      | We consider that adopting a PAR100 would better the applicable objectives (d) and (b) and although we have some concerns over the impact of a single cash-out price in terms of impacts to intraday liquidity, we consider that overall the alternative does better the applicable objectives.   |
| E.ON            | Yes      | <p>We agree that the P316 Alternative for PAR 100MWh from 2015 and no change in 2018 is the 'least worst' option from the four P305 and P316 options.</p> <p>However we do not believe that a case for change has been proven and do not support P316 Alternative. The current arrangements already incentivise parties to balance, though a certain degree of imbalance is inevitable under any balancing regime. Many other mechanisms have been put in place in attempts to incentivise measures such as availability and liquidity, and further change(s) to arrangements would be unhelpful. The reduction in PAR suggested in P316 Alternative would potentially still see parties erring towards a long position despite the simultaneous move to single pricing, so still detrimental under Objective B, just less so than P316 Proposed. Higher and more volatile cashout costs would be far more of a risk than opportunity for parties; the prospect of increased income from higher prices in cashout or the BM is not reliable enough to provide a signal for investment. The protestations from smaller parties in particular at previous proposals to move to PAR 350MWh or PAR 250MWh suggest that the impacts of PAR 100MWh will also be challenging for some to manage. Consequently we see potentially negative impacts under Objectives B, C and D and believe that although 'least worst', P316 Alternative should be rejected.</p> |
| Good Energy     | Yes      | Overall we consider that the P316 Alternative Modification does marginally better facilitate the   |

| Respondent | Response | Rationale  |
|------------|----------|--|
|            |          | <p>Applicable BSC Objectives and agree with the Panel's initial recommendation that it should be approved. We believe the Alternative Modification to be neutral to all the Objectives other than (b) and (c) and our assessment of it in relation to Objectives (b) and (c) is set out below.</p> <p>Objective (b)</p> <p>The Alternative Modification would better reflect the value of flexibility, which would improve signals for investment in new flexible generation and demand side response, and for the retention of existing generation that would otherwise be mothballed. This should improve security of supply and enable the system to be balanced more efficiently, thereby reducing total costs to System Operator (and to consumers) of maintaining a balanced system.</p> <p>The Alternative Modification would likely result in less predictable cash-out prices which some parties will be less able to react to. However this will incentivise parties to balance their positions more accurately. Furthermore, parties may elect to hold capacity for themselves until close to Gate Closure, to ensure their own position was secure, before trading the spare capacity close to Gate Closure, adversely affecting liquidity.</p> <p>The concerns we mention in response to Question 1 about possible distortions to cash out prices due to erroneous flagging and tagging of balancing actions and other inefficiencies in the current calculation would be considerably diluted with PAR at 100.</p> <p>Objective (c)</p> <p>By better rewarding flexibility the Alternative Modification would improve signals for investment in flexible generation, thereby facilitating competition in generation.</p> <p>As explained in response to Question 1 we consider that the analysis undertaken by Elexon and Ofgem provides very limited insight to the distributional effects of the Alternative Modification. We would expect the introduction of single cash out prices to be of most benefit to smaller parties who tend to be less able to balance their positions and thus disadvantaged most by the present inefficient price spread. On the other hand, larger trading parties who are better able to afford sophisticated forecasting systems and other associated resource,</p> |

| Respondent           | Response | Rationale   |
|----------------------|----------|---|
|                      |          | <p>such as 24/7 trading functions, &amp; experience, should be better able than smaller parties to adjust to a market with sharper cash out prices from lower PAR.</p> <p>We are very concerned that the Alternative Modification could have a detrimental impact on liquidity in the market, which would make it harder for smaller participants to trade. During periods of scarcity, liquidity in the intraday and prompt markets may dry up, leaving us exposed to very high imbalance prices driven by VoLL in conjunction with lower PAR. During the last periods of significant scarcity in the period 2005-2008 liquidity in the prompt market became a major issue to market participants as detailed in response to Question 1.</p> <p>We are particularly concerned by the potential impact of extreme events on small renewable suppliers and independent (non-portfolio) generators where, if the wind does not blow or a generator trips at times of system stress, their imbalance is penalised by very severe cash out prices due to the effect of a low PAR value. This is a significant risk which will add to their overall costs and could potentially put them out of business.</p> <p>We would expect PAR 100 in conjunction with single cash-out prices to reduce credit cover requirements slightly, to the benefit of smaller parties generally.</p> <p>We consider that any significant reduction in PAR should be phased and a move from 500 to 50 is too large a change to make in a single step. Parties need time to time to adapt to the more challenging market conditions and we would prefer any reduction in PAR to be to 250 initially.</p> |
| Eggborough Power Ltd | Yes      | Please see rational above.  |
| Utilita              | No       | <p>As set out in our report phase submission to P305, we do not support the reduction to PAR 100. While we strongly support the implementation of a single cashout price and believe that this would better facilitate the applicable BSC objectives (B, C and D), we continue to believe that the reduction of PAR to 100 in the context of the wider industry changes is too significant a change. This is strongly supported by the analysis of potential PAR values contained in the detail section for P305. This analysis shows a major step change between PAR 250 and PAR 100.</p>  |

| Respondent       | Response | Rationale  |
|------------------|----------|--|
|                  |          | <p>We believe that implementing such a step change, when suppliers (smaller suppliers in particular) can neither predict the impact nor respond to it, would not better facilitate the applicable BSC objectives, in particular objectives B and C as we have previously set out.</p> <p>As set out in our assessment phase submission and restated in the P305 report phase submission, we believe that a single cashout price should be implemented and its effects assessed prior to the implementation of further change.</p> <p>In addition, we suggested that it would be possible to implement a modest reduction in PAR to 350 MWh alongside the implementation of a single cashout price.</p> <p>However if this approach were taken, we believe that its impact post implementation should be carefully monitored to assess the combined change (of single imbalance price and reduction in PAR to 350MWh) in conjunction with the wider changes to the industry (implementation of a capacity mechanism and CfDs under EMR) prior to considering further change under a new modification and working group.</p> |
| Energy24 Limited | No       | <p>Energy24's objections to P316 relate to the move to a single imbalance price. As the Alternative Modification for P316 still proposes to move to a single imbalance price, energy24 opposes its adoption.</p> <p>Energy24 further notes that there were 16 responses of "No" to Question 1 of the previous consultation and only 9 responses of "Yes", with a frequent theme of the "No" responses including specific objection to the adoption of a single imbalance price. If the P316 Alternative Modification is rejected, any further modified versions of the proposal should exclude the move to a single imbalance price. Please see the comments raised by the Workgroup against the applicable BSC Objectives, noting the comments that were expressed that represent a detrimental change. The opinion expressed that a single imbalance price may result in less trading and reduce liquidity is sufficiently contrary to objective c to oppose any modification requiring adoption of a single imbalance price.</p>  |

Question 3: Do you agree with the Panel's initial recommendation that the P316 Alternative Modification would be better than the P316 Proposed Modification?

## Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 15  | 11 | 0                  | 0     |

## Responses

| Respondent             | Response | Rationale  |
|------------------------|----------|--|
| GDF SUEZ UK-Turkey     | Yes      | GDF SUEZ supports a single and more marginal cashout price but believes a hardwired PAR value of 1MWh from 2018 is not warranted. It would be better to wait and see how P316 Alternative affects balancing behaviour before making cashout prices any more marginal. GDF SUEZ therefore supports a PAR value of 100MWh as proposed in the Alternative Modification.   |
| SmartestEnergy         | Yes      | None provided.   |
| UK Power Reserve Ltd   | No       | UKPR does not believe that the Alternative would better the Proposed Modification in meeting the objectives of the BSC. The Proposed Modification is the current best means by which to address the issues of insufficient pricing signals and to represent the true cost of imbalance in the market. We believe that attempts to introduce alternative modifications are solely to dilute the price signal and dilute the reforms that are badly needed by the energy market. This dilution is a false economy as it will mean higher clearing prices in future Capacity Market Auctions. The smart money is on a PAR1 outcome. |
| VPI Immingham          | No       | As outlined above, we believe that a smaller PAR, 50MWh or lower, would provide better market signals and therefore better incentivise market participants to balance. In addition, we support the step change to a lower PAR in the future – certainty is provided with ample time for market participants to alter their behaviour.  |
| InterGen (UK) Ltd.     | No       | None provided.   |
| MPF Operations Limited | No       | We are comfortable with either modification being implemented, but would prefer the alternative as we support marginal pricing for the reasons outlined above.   |

| Respondent                  | Response | Rationale   |
|-----------------------------|----------|---|
| Co-Operative Energy         | Yes      | Yes, we believe implementation of the P316 Alternative Modification would better facilitate competition and new market entry and reduce the risk of distorting competition through the creation of unmanageable risk for non-vertically integrated smaller participants and overcompensation of generators when coupled with the Capacity Market compared to the P316 Proposed Modification.                          |
| First Utility Limited       | Yes      | Please refer to our previous consultation responses.  |
| TMA Data Management Ltd     | No       | We understand the reluctance of reducing the PAR value too quickly; however the intent of the proposal is to make the imbalance price more reflective of the marginal cost of the most expensive actions. That is why we support the P316 Proposed Modification with the reduction of PAR to 50MWh on implementation and 1MWh from 2018. The staged approach should enable Parties to adapt their behaviour steadily. |
| RWE Supply and Trading GmbH | No       | WE believe the arguments between the alternative and the proposed modification are finely balanced. The proposed modification provides certainty that the marginal price will move to 1MWh in 2018, subject to any concerns that may be identified under 50MWh which could result in a modification to change the PAR value.  |
| EDF Energy                  | Yes      | This is a corollary of our belief that the Alternative Modification better meets the BSC Objectives, while the Proposed Modification does not.  |
| Green Frog Power            | No       | For the reasons outlined in the responses to Questions 1 and 2.   |
| DONG Energy                 | Yes      | DONG Energy agrees with the Panel's initial recommendation that the P316 Alternative Modification better facilitates BSC objectives than the P316 Proposed Modification.<br><br>Nevertheless, we remain highly concerned that the PAR100 value may not be at a sufficiently high enough level to eliminate the risk of potential market distortions as outlined in our response to Question 1.                        |
| Drax Power Limited          | Yes      | Yes for the reasons given in answer to questions 1 and 2.   |
| SSE plc                     | No       | SSE prefers a more marginal signal than PAR 100 MWh to send a credible scarcity price signal that will encourage the correct forward trading behaviour to   |

| Respondent                  | Response | Rationale   |
|-----------------------------|----------|---|
|                             |          | invest in and mobilise flexibility backed products; but believes that PAR100 as a minimum is a step in the right direction compared to the current baseline.  |
| RenewableUK                 | Yes      | See answer to Question 2.   |
| Total Gas and Power Limited | No       | BSC Objectives b), c) & d) would not be met. The Panel have not proposed a solution that is evenly fair across the different types of suppliers. Invariably, under both the Proposed and Alternative SCR Modifications, small suppliers will be at a disadvantage, and would struggle to be able to effectively access the short term market.   |
| Vattenfall                  | No       | <b>Confidential response provided.</b>  |
| ScottishPower               | Yes      | Please see our response to Question 2.  |
| Cornwall Energy             | Yes      | Yes. We think the alternative proposal has features which are preferable to the original in respect of objective c) regarding facilitating competition: <ul style="list-style-type: none"> <li>a higher PAR value is more representative of the cost to the system operator of balancing the system in a particular half hour; and</li> <li>a hardwired switch to PAR1 is undesirable, both because it would not be cost reflective and because of the distributional impacts of such a move. It also does not appropriately reflect the uncertainties in the electricity industry between now and implementation;</li> </ul> |
| Centrica                    | Yes      | As stated above, we do not support the implementation of such a low value for PAR as we don't consider that it represents the marginal action on the system, it could result in pollution from system actions setting the cash-out price and a single plant could potentially manipulate the cash-out price. Therefore we consider that the P316 Alternative is better than the P316 Original.  |
| E.ON                        | No       | As per question 2, single pricing may be an improvement under Objectives C and D. The higher level of PAR 100MWh and removal of a step-change a) in 2018 and b) to PAR 1MWh, also means that P316 Alternative is better than P316 Proposed, in not producing impacts as detrimental as those aspects of the Proposed under Objectives B, C and D.   |
| Good Energy                 | Yes      | We consider both the Proposed and Alternative Modifications to be neutral to all the Applicable BSC Objectives other than (b) and (c) but the Alternative   |



| Respondent | Response | Rationale   |
|------------|----------|---|
|            |          | <p>Modification to better facilitate the Applicable BSC Objectives than the P316 Proposed Modification in relation to Objectives (b) and (c) as set out below.</p> <p>Objective (b)</p> <p>The Alternative Modification would reward flexibility a little less than the Proposed Modification, but would result in cash-out prices that were less volatile and more predictable than with the Proposed Modification, so incentives to be balanced would be slightly less than with the Proposed Modification. Also, the incentive for parties to elect to hold capacity for themselves until close to Gate Closure, adversely affecting liquidity, would be less with PAR 100 than a lower PAR.</p> <p>The concerns we mention in response to Question 1 about possible distortions to cash out prices due to erroneous flagging and tagging of balancing actions and other inefficiencies in the current calculation would be less of an issue with PAR 100 than a lower PAR.</p> <p>Objective (c)</p> <ul style="list-style-type: none"> <li>• The less marginal prices under the Alternative than the Proposed Modification would:</li> <li>• better facilitate competition in generation less than under the Proposed Modification by providing less of an increased reward for flexibility;</li> <li>• better facilitate competition in generation because of there being much less likelihood of cash-out prices being set by only one or two parties (which provides the potential for those parties to exercise market power);</li> <li>• better facilitate competition in supply more than under the Proposed Modification by having less of an adverse effect on smaller parties in the following respects (explained in more detail in response to Questions 1 &amp; 2 above): <ul style="list-style-type: none"> <li>○ smaller parties being less able to adjust to a market with sharper cash out prices from lower PAR;</li> <li>○ less likely to have a detrimental impact on liquidity in the market that would make it harder for smaller participants to trade;</li> <li>○ the potential impact of extreme events on small renewable suppliers and independent</li> </ul> </li> </ul> |

| Respondent           | Response | Rationale   |
|----------------------|----------|---|
|                      |          | <p>(non-portfolio) generators would be less;</p> <ul style="list-style-type: none"> <li>○ an expected increase in credit cover requirements being less.</li> </ul>  |
| Eggborough Power Ltd | Yes      | <p>Yes, but EPL would suggest that neither are better than the baseline and we would therefore urge Ofgem to reject both.</p> <p>It is a design flaw that the BSC does not allow for multiple modifications and thus rejection is necessary. However, we would support National Grid then re-raising the elements of the modification as single modifications that can then each be progressed into robust solutions.</p> <p>In the case of P316, EPL agrees with the Panel that the alternative is a more robust solution than the original and should be implemented.</p>   |
| Utilita              | Yes      | <p>Please see our answers above and the assessment phase submission appended.</p> <p>While we concede that P316 Alternate could be viewed as being less detrimental than P316 original, as per figure 4 in the p305 detailed assessment and associated analysis, the difference is slight. Hence we consider that P316 Alternate should also be rejected, as the benefit available is not commensurate with the additional risk imposed on suppliers.</p>   |
| Energy24 Limited     | Yes      | <p>Energy24 draws attention to the cashout impact upon existing market participants (particularly smaller independents on both the generation and supply sides of the market) who may be adversely impacted in the near term to support changes designed for the long term. Energy24 provides services to assist smaller parties; however, it is energy24's view that higher cash-out prices will drive parties to greater balancing actions, but this, at times of stress in particular, is likely to reduce short-term liquidity (as long or balanced parties will not wish to sell, for fear of ending up short) thus reducing the ability for a party, be they large or small, to manage their positions in near real time.</p> |

## Question 4: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P316?

### Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 19  | 0  | 6                  | 1     |

### Responses

| Respondent                  | Response   | Rationale  |
|-----------------------------|------------|--|
| GDF SUEZ UK-Turkey          | Yes        | None provided.   |
| SmartestEnergy              | No Comment | None provided.   |
| UK Power Reserve Ltd        | Yes        | UKPR agrees that the proposed changes to the BSC are appropriate for achieving the intended objectives.                |
| VPI Immingham               | Yes/No     | None provided.   |
| InterGen (UK) Ltd.          | Yes        | None provided.   |
| MPF Operations Limited      | Yes        | None provided.   |
| Co-Operative Energy         | Yes        | Yes, we agree that the draft legal text will deliver the proposed intent of P316.                                      |
| First Utility Limited       | Yes        | None provided.   |
| TMA Data Management Ltd     | Yes        | None provided.   |
| RWE Supply and Trading GmbH | Yes        | None provided.   |
| EDF Energy                  | Yes        | The redlined changes appear to deliver the intent of the modification.   |
| Green Frog Power            | Yes        | The changes appear to reflect the intent.  |
| DONG Energy                 | Yes        | DONG Energy agrees with the Panel that the redlined changes to the BSC in Annex A and B deliver the intention of P316. |
| Drax Power Limited          | Yes        | We believe it does.  |
| SSE plc                     | Yes        | None provided.   |
| RenewableUK                 | No opinion | None provided.   |

| Respondent                  | Response    | Rationale   |
|-----------------------------|-------------|---|
| Total Gas and Power Limited | Yes         | We see no issues with the draft redlined changes to the BSC.  |
| Vattenfall                  | Yes/No      | None provided.  |
| ScottishPower               | Yes         | We have not been able to conduct a detailed review but the proposed changes appear to deliver the intent of P316.   |
| Cornwall Energy             | Yes         | None provided.  |
| Centrica                    | Yes         | None provided.  |
| E.ON                        | Yes         | It appears satisfactory.  |
| Good Energy                 | Yes/No      | We do not have a view on this.  |
| Eggborough Power Ltd        | Yes         | EPL does not like the fact that the function for the dynamic LOLP calculation has not been worked up into a robust solution. In effect Ofgem would be signing off a modification that is incomplete and therefore cannot be shown to better facilitate the relevant objectives. |
| Utilita                     | N/A         | None provided.  |
| Energy24 Limited            | No Response | No comments further to those elsewhere in the document.   |

## Question 5: Do you agree with the Panel's recommended Implementation Date?

### Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 16  | 9  | 0                  | 1     |

### Responses

| Respondent             | Response | Rationale   |
|------------------------|----------|---|
| GDF SUEZ UK-Turkey     | Yes      | Whilst we agree with the implementation date, a 6 month lead time is needed for GDF SUEZ UK-Retail to make changes to its supply contracts where these reference the current balancing arrangements.  |
| SmartestEnergy         | Yes      | None provided.  |
| UK Power Reserve Ltd   | Yes      | UK Power Reserve supports the introduction of P316 for November to allow a complete winter period at the new market conditions, we would however support any move to bring the date forward. UKPR does not agree with the decision to delay the drop to PAR 1 until 2018 as we strongly believe the missing money problem exists now and the market desperately needs the pricing signal to incentivise a smarter more flexible market that will mean savings for the end consumer. Therefore PAR should be reduced to a low as possible as quickly as possible. A lower PAR with certainty that PAR will reduce to 1 will provide the market with the certainty required to invest and become smarter and ultimately more efficient. |
| VPI Immingham          | Yes      | Yes, we believe that these changes should be implemented ahead of Winter 15/16 to ensure that improved balancing signals are in place, especially as the system is expected to be tight.  |
| InterGen (UK) Ltd.     | Yes      | None provided.  |
| MPF Operations Limited | Yes      | None provided.  |
| Co-Operative Energy    | No       | We would prefer the introduction of a single imbalance price with a period following this to allow assessment of the effect of this change on the market prior to any reduction of PAR. However, should this not be possible, we feel that it would be better to direct implementation on 1 April 2016 and thus allow a summer period during which imbalance  |

| Respondent                  | Response | Rationale  |
|-----------------------------|----------|--|
|                             |          | prices are likely to be less volatile for post implementation assessment. Implementation on 1 April 2016 could be reasonably expected to provide smaller non-vertically integrated participants with more time to adjust to the change to PAR in relatively benign cash-out conditions than during the winter contract when a greater level of imbalance price volatility can be expected.   |
| First Utility Limited       | Yes      | None provided.   |
| TMA Data Management Ltd     | Yes      | None provided.   |
| RWE Supply and Trading GmbH | Yes      | None provided.   |
| EDF Energy                  | Yes      | We note, however, that there has been considerable uncertainty about what reforms, if any, would be implemented as a result of the proposals raised following EBSCR. A relatively short lead time between the changes going firm, and the implementation date could lead to an inappropriate misallocation of risk between energy companies and their customers. We therefore would encourage the Authority to expedite the decision-making process as far as it is able.  |
| Green Frog Power            | Yes      | <p>As noted in our response to P305, and in our initial P316 response, we think that the earlier the implementation the better. We see no advantage to delaying the reforms that will improve market functioning from a competitive and efficiency perspective. As noted in our previous P316 response, the analysis demonstrated that the potential costs of moving to a lower PAR value are counterbalanced by the move to single pricing.</p> <p>While we agree with the Proposed modification of PAR50 in November 2015, and then progressing to PAR1 in 2018 as preferable to the other proposed and alternative options (in P305 and P316), we would prefer an immediate transition to PAR1 in November 2015, as we see no convincing reason to delay.</p> <p>Cash Out reform is being brought in because suppliers and generators are not fully exposed to the costs they impose on the system. This distorts the system distorted and the ensuing inefficiencies ultimately results in higher prices for consumers. Having observed and then decided to correct this distortion, why should consumers wait for the</p> |

| Respondent                  | Response | Rationale   |
|-----------------------------|----------|---|
|                             |          | rectification and meanwhile continue to pay for the ongoing distortions?  |
| DONG Energy                 | No       | DONG Energy believes that the recommended implementation date 5th of November 2015 would be possible from an operational point of view. However, an implementation date after Winter 2015 would give market participants the opportunity to adapt to the new market environment during the summer before potential higher system stress could occur in Winter 2016.   |
| Drax Power Limited          | No       | We appreciate that Ofgem is committed to a November 2015 implementation date. However, we believe that consideration should be given to recommend a later implementation date, perhaps mid-2016. This is because there is merit in implementing the proposal with a longer lead-time and during a more benign market period i.e. Summer. This will better enable market participants to develop new trading strategies.   |
| SSE plc                     | Yes      | Changes are need for this Winter to better incentivise flexible capacity to remain available as system margins tighten. November 2015 therefore remains an appropriate target date.   |
| RenewableUK                 | No       | An implementation date of 5 November 2015 does not allow sufficient time for all market participants, particularly smaller ones, to prepare adequately for such a significant change. It is also the case that the proposed implementation date is just ahead of the most testing time for wind generators, where their ability to manage the new arrangements will be most challenged. Moving the date to spring 2016 would give more time for the change to be implemented, and would allow wind generators to get used to the new arrangements over the less challenging summer period.  |
| Total Gas and Power Limited | No       | Implementation of these changes are too early and do not allow suppliers vertically integrated or not to "bed in" and understand the very different market they are operating in. Instead the proposed date comes just before what is a traditionally a volatile time and also follows swiftly on from two bearish winters. Many suppliers will need to readjust their thinking regarding forecasting, as the behaviour of their customers and the nature of their portfolios will have altered, but not been fully understood in times of, for example, extreme cold. We can again relate this back to an unfair disadvantage to Small |

| Respondent           | Response      | Rationale   |
|----------------------|---------------|---|
|                      |               | and Medium suppliers. Larger vertically integrated companies on the whole will have substantially larger portfolios and changes within these will likely be netted off, unlike those of Medium and Small suppliers.   |
| Vattenfall           | No            | <b>Confidential response provided.</b>  |
| ScottishPower        | Yes           | Although we do not support implementation of P316 Proposed Modification, alignment of implementation of P316 Proposed or Alternative Modification with the November 2015 BSC Systems Release as recommended by the Panel seems logical.   |
| Cornwall Energy      | Yes           | None provided.  |
| Centrica             | Yes           | None provided.  |
| E.ON                 | No            | We do not support a hardwired change in 2018 as per the Proposed. November 2015 only as under the Alternative however would be more acceptable.   |
| Good Energy          | Qualified Yes | <p>We are only agreeable to a Nov 15 implementation date in respect of the P316 Alternative Modification. Reducing PAR from 500 to 50 would be too large a change to make in one step. Any reduction in PAR should be to no less than to PAR 100, before any further reduction is contemplated, so as to allow Parties time to be able to adapt gradually to the more challenging market conditions with a lower PAR.</p> <p>Were the changes in the Proposed Modification to go ahead, we consider implementation should be delayed until Spring 2016. This would allow parties to start to adjust to the changes during a period when the system is generally likely to be less tight than over Winter 2015/16.</p> |
| Eggborough Power Ltd | Yes           | Assuming that the IT can be developed in a robust manner. EPL has had a number of concerns recently about how IT is being developed in the market. It is extremely important that cash-out prices are robust and can be relied upon by contracting parties  |
| Utilita              | No            | As we consider both modifications should be rejected, we do not support the recommended implementation date.  |
| Energy24 Limited     | No            | Energy24 would disagree with the recommended implementation date, as it comes at a time of year when peak prices would be expected to be at their   |



| Respondent | Response | Rationale   |
|------------|----------|---|
|            |          | <p>highest and thus the imbalance price calculation mechanism would be at greatest risk of manipulation by players acting in bad faith as well as a new system 'finding its feet'. Additionally, energy24 believes that a more detailed analysis of the impact on individual roles would be welcome.</p> <p>The assumption that market participants would not change their behaviour in response to the new incentives provided would seem to require an assumption of good faith bordering on arguable naivety; if such changes were to be approved, energy24 feels it would be appropriate to assess participants' changed behaviours in practice at a time when the most extreme effects of potential manipulation are not available and suggests waiting until after the winter 2015/16 peak period for implementation.</p> |

Question 6: Do you believe that expected changes between now and winter 2018/19 mean it would be inappropriate to include further hardwired changes in P316 proposed to go live on 1 November 2018?

## Summary

| Yes | No | Neutral/No Comment | Other |
|-----|----|--------------------|-------|
| 15  | 9  | 2                  | 0     |

## Responses

| Respondent           | Response | Rationale   |
|----------------------|----------|---|
| GDF SUEZ UK-Turkey   | Yes      | In general terms, the impact of a single and more marginal cashout price should be assessed before moving to a fully marginal price.  |
| SmartestEnergy       | Yes      | None provided.  |
| UK Power Reserve Ltd | No       | No as the market needs confidence things will happen. Hardwiring lower PAR values now creates certainty for the market to respond to. By not hard wiring future changes now the industry risks not getting to where it should get to and further time, effort and resource has to go into future consultations for consultations sake. Our view is it would be more efficient to hard wire in changes now through this comprehensive consultation process and then review and raise future modifications ad-hoc in response to observed price signals rather than to depend on future consultations achieving the desired BSC objectives. |
| VPI Immingham        | No       | No, we do not believe that it is inappropriate to include a future hardwired change. Having a hardwired change gives market participants ample time to adjust to any behaviour ahead of the proposed implementation. With the proposed step change, time is factored in to understand the consequences of the initial change before the subsequent change and it provides certainty to market participants as to the future. Should there be any issues, further modifications could always be raised to address any concerns.  |
| InterGen (UK) Ltd.   | No       | The intention of moving to PAR1 provides a clear directional signal to the market. To suggest that it is "hardwired" is to misunderstand the nature of the BSC change process. If, in fact, the changes do not lead to the benefits outlined in the detailed analysis prepared by the Authority, then it is clearly possible  |

| Respondent                  | Response   | Rationale  |
|-----------------------------|------------|--|
|                             |            | for an alternative implementation date or alternative proposals to be brought forward at a later date by a BSC party.  |
| MPF Operations Limited      | No         | <p>We do have some concerns that the market may change a lot in the run up to 2018, but setting a clear signal that the market will move to marginal pricing would add to regulatory stability. There is always the possibility of unwinding any changes were they to prove to be unnecessary or create unforeseen problems.</p> <p>We would note that on many issues (such as P272, etc.) the smaller parties argue for longer notice periods. This modification sends a clear signal to the market about the direction of travel, allowing time for parties to develop new systems, improve forecasting, set up new products, etc. to help better manage their imbalance risk.</p> |
| Co-Operative Energy         | Yes        | Yes, we share the view of the CMA that a reduction of PAR to 1MWh in November 2015 would risk overcompensating generators when coupled with the Q4 2016 launch of the Capacity Mechanism. We also feel that a PAR of 1MWh could be expected to create unmanageable imbalance and hedging risk for smaller non-vertically integrated participants and have a serious negative impact on both competition and new market entry.  |
| First Utility Limited       | Yes        | None provided.   |
| TMA Data Management Ltd     | No Comment | n/a  |
| RWE Supply and Trading GmbH | No         | We don not believe that expected changes between now and winter 2018/19 mean it would be inappropriate to include further hardwired changes in P316 proposed to go live on 1 November 2018.  |
| EDF Energy                  | Yes        | We do not believe that PAR values should be subject to an automatic change at some point in the future. We believe that it is impossible to accurately model the effect that the proposed changes to the cashout arrangements would have on market participants, and we would look for empirical evidence on the effects of these changes before supporting further change. Given that a BSC Modification to change PAR could be raised and assessed relatively quickly, we feel it would be better for the Industry to take stock following implementation of this modification, and take an evidence-based decision on whether a further   |

| Respondent         | Response | Rationale  |
|--------------------|----------|--|
|                    |          | reduction was desirable.   |
| Green Frog Power   | No       | <p>Prices in the Capacity Market will undoubtedly be influenced by Cash Out reform. The higher cash out prices are, the more generators will be motivated to provide power during peak hours, a clear aim of Cash Out reform. So if reform is delayed consumers could be asked to pay for 15-year Capacity Market agreements that will be higher than if the reform is brought in before the next Capacity Market auction.</p> <p>We believe that credible and predictable regulatory structure is required to ensure that the market reacts appropriately and efficiently. With the implementation of the capacity market, industry participants are committing themselves to financial positions four or more years away.</p> <p>So long as there is uncertainty about what cash-out reform will actually look like, because of delayed or postponed implementation, bidders are potentially going to assume that the reforms will only be partially implemented, undoing some of the benefit of the reforms, and costing the end consumer more than would be required if the regulatory regime were known and fully in place.</p> |
| DONG Energy        | No       | DONG Energy does not believe that it is appropriate to include hardwired change as proposed in the P316 Proposed Modification. We agree with the Panel's thinking that ongoing change in and reform of the electricity market has the potential to produce a significantly different baseline scenario compared to today's situation.  |
| Drax Power Limited | Yes      | Many near future developments could impact on the merits of P316. However, we object to the hardwired change in P316 in principle i.e. the proposed hardwired change does not in itself better facilitate the BSC Objectives. The potential changes between now and 2018/19 are not relevant to our evaluation of the merits of the proposal.  |
| SSE plc            | No       | In normal circumstances SSE do not believe that it would be appropriate to hardwire changes so far in advance without a further test of suitability against the baseline. However, in this circumstance, SSE believes that the industry requested and required a medium-term signal in order to value potential scarcity rent that might be realised through the balancing market and therefore adjust prices for initial capacity market bids correspondingly. We   |

| Respondent                  | Response | Rationale   |
|-----------------------------|----------|---|
|                             |          | believe that the solution to lower the PAR value to 1 in 2018 in particular provides the certainty of signal required to better inform approaches to pricing in the capacity market. We therefore believe that in this circumstance it is appropriate to hardwire these changes with plenty of forward notice.  |
| RenewableUK                 | No       | Given the CMA enquiry and other ongoing reforms to the electricity market and wider energy policy, it does not appear appropriate to hardwire in further changes on 1 November 2018. If further changes are required later, then code modifications can be raised at that time.   |
| Total Gas and Power Limited | Yes      | Whilst a long term signal to the market is preferable, the dynamic make up of the UK generation fleet, new European network codes and other unknown changes would not be best served by hardwiring further changes in at this point in time.  |
| Vattenfall                  | Yes/No   | <b>Confidential response provided.</b>  |
| ScottishPower               | Yes      | We believe that following a change in PAR value to 100MWh in 2015, time should be allowed to observe the effect of the change, to determine whether the benefits claimed in the SCR are delivered and then to determine whether a further change in PAR value is justified. In addition, a number of additional initiatives to improve security of supply are being introduced in the period to 2018 which may remove the justification or need for more marginal pricing. For this reason we do not support "hard wiring" a further change in 2018 into the current P316 proposal.   |
| Cornwall Energy             | Yes      | <p>We do not believe it is appropriate to hardwire changes into the BSC for a future date given the changes underway and uncertainties that exist over the future of the electricity industry between now and 2018-19 including:</p> <ul style="list-style-type: none"> <li>the Competition and Markets Authority investigation;</li> <li>outcomes following the 2015 general election;</li> <li>Transmission charging changes;</li> <li>Changes under the Third Package model for European integration and implementation of the Single Target model for the electricity market</li> <li>further changes to support schemes such as</li> </ul> |

| Respondent | Response | Rationale   |
|------------|----------|---|
|            |          | <p>the Capacity Market, Contracts for Difference and the Supplemental Balancing Reserve/ Demand Side Balancing Reserve; and</p> <ul style="list-style-type: none"> <li>• A shift to one day switching</li> </ul> <p>As stated above, we consider a move to PAR1 would be detrimental to competition and consumers.</p>  |
| Centrica   | Yes      | <p>The market is expected to implement significant change both from Europe and internally via market changes to GB over the next couple of years, given this, we consider that any changes should be given a chance to bed in, before appropriate analysis is undertaken to decide whether further reform is appropriate.</p>   |
| E.ON       | Yes      | <p>As also highlighted under P305:</p> <p>For changes determined now to be appropriate in November 2018, is far from certain, and we do not believe it helpful to decree such changes so far in advance. A long lead time for any change raises the risk that other developments in the energy market or wider environment might undermine the suitability of that change when the time comes. Aside from general discomfort with the notion of pushing a modification through determining that a change should be implemented over 3 years from now, there are substantial reasons not to decide future change prematurely.</p> <p>In addition to changes such as P272 and others as we move towards 'Smarter' retail markets, various major mechanisms have recently been established to attempt to improve wholesale liquidity and incentivise existing plant to remain available. In practice the Capacity Market, not changes to balancing arrangements, is what will provide the necessary support to maintain the required level of generation capacity, while the additional precautions of DSBR and SBR can supply further flexibility when required. However the full impact of all of these changes will not be known for some time, and more difficult to assess, the more interventions are put in place. To implement another change to cashout through P316 would be an unnecessary additional alteration to market arrangements. P316 is not needed to incentivise improved balancing or investment in (flexible) capacity. We believe it would have the opposite to the desired effect, as the unreliability and increased</p> |

| Respondent | Response | Rationale  |
|------------|----------|--|
|            |          | <p>volatility of sharper imbalance prices to be paid or received would be a risk, not a bankable income. The idea that higher imbalance charges better value flexibility also does not seem to acknowledge the distinction between technical flexibility and contracted obligations; only uncontracted plant could respond to very short-term price signals; these being unpredictable makes that an unattractive approach.</p> <p>While the level of change to trading arrangements seems greater than ever, companies such as Centrica and E.ON have also recently announced major changes to their business models which will see a less vertically-integrated market in future. Such developments are in addition to the expected change in the GB generation mix. Growth in intermittent generation includes solar as well as wind, the very assets that may be most vulnerable to incurring high cashout costs under a more or fully marginal imbalance pricing regime. There is a risk that further investment in such renewables could be deterred by increasing the unmanageable risk of volatile cashout prices to these generators. Such a fear factor could impact future investments, with a rising cost of capital for such projects. This would not be an efficient outcome.</p> <p>Additionally there are considerable political uncertainties, with a general election pending and opposition parties suggesting radical energy policies while referendums are planned questioning continued UK membership of the European Union. In the absence of a radical change/withdrawal of the UK, the European Commission has only just announced its Energy Union plans that include bringing forward a new market design as soon as possible, with various legislative proposals to be adopted in the next two years to achieve full market integration. However, even if we remain in the EU, until European Network Codes and any other such regulations are finalised, it is unclear whether or not any changes to current GB balancing arrangements (such as a move to pay as clear/marginal pricing of balancing energy), might or might not be necessary to comply with future European legislation. On some matters current Code drafts suggest that national interpretation may be allowed, but this will not be clear until Codes are finalised and national implementation begins where necessary in the coming months and years. Whatever changes are</p> |

| Respondent           | Response | Rationale   |
|----------------------|----------|---|
|                      |          | made to GB arrangements in the next year or so, parties could thus see further upheaval when relevant EU laws enter into force, with the risk that this might include alterations to some measures put in place by P316 in 2015/2018. When exact EU requirements become known it might transpire that changes such as a move to more/fully marginal pricing were unnecessary in the context of a single market for energy. Hence until the relevance or detail of EU requirements is known, and industry is struggling to cope with the multitude of national measures already in progress, it would seem prudent not to implement unnecessary changes such as P316.  |
| Good Energy          | Yes      | <p>In view of the current low level of European harmonisation in respect of balancing arrangements it may be difficult to reach a consensus on a European Network Code. Until it is finalised it will remain unclear as to what extent the current GB balancing arrangements will comply with EU requirements. The introduction of the Capacity Market, Supplemental Balancing Reserve and Demand Side Balancing Reserve can be expected to impact cash-out and it seems likely that the CMA investigation will lead to changes to industry codes. The General Election in May 15 may do so too and perhaps lead to much more fundamental market change.</p> <p>The changes to cash-out under consideration for implementation from November 2015 will lead to behavioural change – likely to be significant in the case of some parties but the responses to the Assessment Consultation showed a variety of views on this. Until these changes are implemented and Parties have had time to adjust to them, it is impossible to foresee with any certainty what their effect will be.</p> <p>For these reasons we consider it would be inappropriate to include further hardwired changes in P316 proposed to go live on 1 November 2018.</p> |
| Eggborough Power Ltd | Yes      | <p>In general hardwiring future changes into codes risks making the industry a hostage to fortune. There are so many developments at both the GB and EU level that may make the 2018 changes either unpalatable, unadvisable or even illegal. It would therefore be a more robust solution to allow the market to raise future changes nearer the time were Ofgem, or the parties, still of the view that</p>   |



| Respondent       | Response | Rationale   |
|------------------|----------|---|
|                  |          | further changes are required. There seems to be some benefit in adopting a wait and see approach if implementation timeframes could still be achieved, which it appears they can.   |
| Utilita          | Yes      | <p>We believe that both P316 and P316 Alternate should be rejected on that grounds that not only would they not better facilitate the applicable BSC objectives, but that they would be detrimental to those objectives.</p> <p>We have suggested two possible options that could be considered that we believe would both better facilitate the objectives (implement only the single cashout price or implement in conjunction with a modest change to PAR 350). We remain of the view that any subsequent change should be the subject of a separate modification and analysis. We still hold this view and hence agree that future change should not be hardwired into the BSC on this basis.</p> |
| Energy24 Limited | Yes      | Energy24 would support further review of appropriate PAR values in the light of observations on participants' behaviour rather than supposition of what might change.   |

## Question 7: Do you have any further comments on P316?

### Summary

| Yes | No |
|-----|----|
| 4   | 22 |

### Responses

| Respondent           | Response | Rationale   |
|----------------------|----------|---|
| GDF SUEZ UK-Turkey   | No       | n/a   |
| SmartestEnergy       | No       | n/a   |
| UK Power Reserve Ltd | Yes      | <p>UK Power Reserve believes that a PAR value of 1 should be achieved as rapidly as possible alongside the introduction of single pricing, a phased approach would delay the best solution being implemented. We also believe that a delayed or phased approach would not benefit either parties or end consumers in providing time for adaption as the market conditions and behavioural reactions of each PAR level would be sufficiently unique to make them irrelevant for the desired end condition of PAR 1.</p> <p>Our concern is that a phased reduction of PAR does not provide the signals required to the market for encouraging behavioural change and encouraging investment and that it does not best meet the BSC objectives to delay the reduction of PAR to 1. It would also pose contractual issues in that agreements would likely cover periods of multiple PAR levels whereas a timelier drop to PAR 1 would permit a single changeover point.</p> <p>To delay PAR1 and/or implementation presents a false economy as Cash Out reform compliments Electricity Market Reform and future Capacity Market costs. A lower PAR results in a lower Capacity Market cost as capacity needs to rely less on firm capacity market payments than it otherwise would do should PAR not be lowered to 1.</p> |
| VPI Immingham        | Yes      | <p>We fully support the proposed changes as a result of the Electricity Balancing Significant Code Review and wish to see at least part of the package, i.e. P316, implemented to improve the market signals to participants.</p>   |
| InterGen (UK) Ltd.   | No       | n/a   |

| Respondent                  | Response | Rationale   |
|-----------------------------|----------|---|
| MPF Operations Limited      | No       | n/a   |
| Co-Operative Energy         | No       | n/a   |
| First Utility Limited       | No       | n/a   |
| TMA Data Management Ltd     | No       | n/a   |
| RWE Supply and Trading GmbH | No       | n/a   |
| EDF Energy                  | No       | n/a   |
| Green Frog Power            | No       | n/a   |
| DONG Energy                 | No       | n/a   |
| Drax Power Limited          | No       | n/a   |
| SSE plc                     | No       | n/a   |
| RenewableUK                 | No       | n/a   |
| Total Gas and Power Limited | No       | n/a   |
| Vattenfall                  | No       | n/a   |
| ScottishPower               | No       | n/a   |
| Cornwall Energy             | No       | n/a   |
| Centrica                    | No       | n/a   |
| E.ON                        | No       | n/a   |
| Good Energy                 | No       | n/a   |
| Eggborough Power Ltd        | No       | n/a   |
| Utilita                     | Yes      | Our views remain as above and in our submissions to this report phase consultation, the appended assessment phase consultation and the equivalent documents for P305.   |
| Energy24 Limited            | Yes      | Energy24 understands the driver for a single imbalance price but further discussion has not allayed any concerns that this has the potential to drive undesirable side-effect such as parties aiming to imbalance one way or the other rather than seeking to deliver a balanced position, such as that delivered |

| Respondent | Response | Rationale  |
|------------|----------|--|
|            |          | to energy24's services to smaller participants. Our services naturally provide a route to market and a set of tools for parties to balance, which in effect lends to system efficiency Energy24 remains unconvinced that sufficient research has been completed into the practical attitudes to imbalancing taken by market participants acting in bad faith under the proposed regime of imbalance price calculation providing perverse incentives to deliberately imbalance, and is alarmed that this has not been specifically addressed. |