ANNEX 3 – REPRESENTATIONS FROM PARTIES

a Responses from P26 Assessment Consultation

Representations were received from the following parties:

No	Company	File Number
1.	Atlantic Electric and Gas Ltd	P26_ASS_001
2.	Utility Link	P26_ASS_002
3.	Edison Mission Energy (CONFIDENTIAL)	P26_ASS_003
4.	SEEBOARD	P26_ASS_004
5.	Amerada Hess Gas Ltd	P26_ASS_005
6.	British Energy	P26_ASS_006
7.	Scottish Power plc	P26_ASS_007
8.	NGC	P26_ASS_008
9.	Scottish and Southern Energy	P26_ASS_009
10.	Dynegy	P26_ASS_010
11.	Enron	P26_ASS_011
12.	PowerGen	P26_ASS_012

P26_ASS_001 – Atlantic Electric and Gas Ltd

Regarding P26 raised by Bizzenergy, I have the following response to make on behalf of Atlantic Electric and Gas Ltd.

Since the start of NETA small players in both generation and supply have been at a distinct disadvantage. Small suppliers typically do not have the diverse portfolio of a large supplier and do not have the necessary historical information that is required for accurate demand forecasting. Even if small suppliers were able to do this, since the start of NETA, trading in small amounts has been very illiquid.

The smallest traded long term amount that is typically available is 20MW. For denominations of less than this, the only place to trade is the UKPEX where power is traded on a half hourly basis. Experience of the UKPEX typically shows very large bid-offer spreads with the result being high buy prices and low sell prices.

So if a supplier requires 33MW in a half hour, for example, then due to the penal imbalance prices that have been experienced since the start of NETA, this number could not be rounded down to 20MW or up to 40MW. Therefore, the supplier would have to buy 13 on the UKPEX at a higher price or sell 7MW at a lower price. There is also no guarantee that bids and offers will be even available for each half hour. A large supplier would round say 433MW up to 440MW as demand forecast errors are typically 3% as a minimum.

The UKPEX only trades half hourly slots at day -1 at the earliest so there often a requirement on small suppliers to trade on weekends for Sundays and Mondays, further adding to the costs of operating under NETA.

This modification would offer excellent benefits for small suppliers to buy energy at the same wholesale prices as larger suppliers which will increase competition (one of the advertised aims of NETA during its inception), which will ultimately benefit the customer. At the same time it will not give an unfair advantage to smaller players over larger ones as this 20MWband would apply to all.

Much has also been documented about the detrimental effects NETA is having on small generators, including CHP and renewables. This modification would take away most of the problems these players are having under NETA and at the same time encourage more development of CHP and renewable schemes, increasing the numbers of ROCs available which will in turn decrease prices to consumers as a result of reduced buy-out premiums. It would also significantly aid the Government's long term targets for CHP and renewable energy.

The above points outline the reasons why Atlantic Electric and Gas wholly supports this modification and would like it to be implemented at the earliest opportunity.

Regards,
Mark Jones
Market Operations Manager

P26_ASS_002 – Utility Link

Utility Link support the proposal for the reasons mentioned in the modification as an appropriate solution to the liquidity problem facing small Suppliers and Generators.

However, we believe that the neutrality band should be 25MWh as this equates to the 50MW point where a Generator is no longer considered small by the BSC trading arrangements.

Chris Welby
Regulation & Consultancy Manager
Utility Link Ltd
16, Avon Reach,
Monkton Hill,
Chippenham,
SN15 1EE
Tel: 01249 705559
Fax: 01249 445374
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P26_ASS_003 – Edison Mission Energy

CONFIDENTIAL RESPONSE

P26_ASS_004 – SEEBOARD

Modification Proposal P26 Assessment Comments

At this stage we do not feel able to make any decision on if this modification better facilitates BSC Objectives. We do feel that further work is necessary to provide a better idea of a potential solution prior to making any decision. However we do have a number of concerns, which are summarised below:

1. This proposal seeks to address shortcomings in Power Exchanges by changing the rules of the Balancing Mechanism. Therefore, we are concerned that the introduction of this proposal could inhibit development of sub 20MWh products and hinder the evolution of the market mechanism.

2. The proposer argues that 'granularity' and lack of liquidity in spot markets means that suppliers and small generators cannot fine-tune their positions. However, at the same time it reduces demand forecasting risk for all suppliers and for a small supplier may even eliminate it altogether. As demand forecasting errors are related to volume a fixed neutrality band will unfairly advantage small players. It would therefore seem logical that a neutrality band if applied should be based on an inherent percentage forecasting accuracy. This, however, could cause other problems as these percentage errors could relate to a considerable amount of electricity. It is possible that this would lead to other problems with the Balancing Mechanism.

3. Participants have invested large sums of money in systems to enable them to reduce their costs by forecasting demand more accurately than their competitors. Thus it can be argued that this proposal would remove an important part of the competitive process.

4. This proposal reduces incentives on participants to balance accurately. This could lead to greater price volatility in the Balancing Mechanism.

Dave Morton
SEEBOARD
0190 328 3465

P26_ASS_005 – Amerada Hess Gas Ltd

P26 – Assessment Comments

Thank you for the opportunity to comment on the above Modification. Our comments represent the views of Amerada Hess Gas Ltd, Amerada Hess Gas (Domestic) Ltd, amerada.co.uk Ltd, Midlands Gas Ltd, and Western Gas Ltd.

Amerada is in support of the principles of this modification, believing that a tolerance band for small imbalances that cannot be economically managed is appropriate. We believe such a tolerance would further the relevant objectives by facilitating competition and encouraging smaller new entrants to the market, as the current position has disproportionate adverse effects on smaller suppliers.

Amerada does not believe that other modifications (P008, P015, P018, P004 & P012) will resolve the issues that have led to the requirement for P026. The primary reason is the granularity of normal trade size being 20MW and the volatility of imbalance prices leading to punitive cashout.

This modification may not necessarily reduce liquidity unless system prices are asymmetric encouraging parties to go long or short. In addition, we do not agree that all parties will be similarly affected. This is because the worst imbalance cost of 20MW chunks has to be spread across a much smaller number of customers for a small supplier and therefore will have a disproportionate cost of supply for a small business. The same imbalance cost spread across a large supply business with 5 million customers is much less significant.

Amerada agrees that the size of the neutrality band should be related to the granularity in trading to manage cost effectively the level of imbalances. We also believe for the reasons outlined above, it should be a fixed volume for all settlement periods, further we would favour a single neutral price if a suitable figure can be agreed for simplicity and to ensure equal care is taken on both long and short imbalances. Finally we would support a phased application, the all or nothing approach referred to in Elexon's initial assessment would undermine the principle of a neutrality band.

In addition, we agree with the proposer that liquidity of markets and traded instruments should be reviewed annually to assess whether this regime stays in force for all players or whether, once the regime is more settled and trading more liquid, the tolerances could be progressively reduced as happened in the Gas market.

In summary, we believe that a tolerance regime is appropriate for small imbalances, pending the markets becoming more liquid and the granularity smaller. We also consider that there is a case for a low level tolerance in the longer term to take account of error that cannot be effectively or economically managed, as is the case with Forecast Deviation in Gas.

We trust our comments have been useful, and we would be happy to discuss any of the points raised in more detail, if this would be helpful.

Yours sincerely
Alison Kuck
Transportation Contract Manager

P26_ASS_006 – British Energy

P26 - Market Driven Trading Neutrality Band - Comments following Elexon Initial Written Assessment

No firm evidence is provided in the modification proposal to support the suggestion that the liquidity and efficiency of spot markets is hampered by the current level of control of flexible generation by "a limited number of portfolio and vertically integrated participants".

Volumes less than 20 MWh are available and traded on the power exchanges, 1 MWh being the minimum permitted volume. Trade and notification charges are levied on a per MWh basis on at least 2 of the major power exchanges, ie. the rate is independent of the size of trade. British Energy are unconvinced by the argument that participants trading smaller volumes are unfairly disadvantaged by the operation of forward markets and exchanges.

If deficiencies in the forward markets are found, they should be dealt with at source, not by arbitrary and discriminnatory benefits given via the Balancing Mechanism to "small" participants.

The size of the neutrality band and the price applied within it would represent an arbitrary step difference between participants solely on the basis of size.

If a modification such as that proposed were to be implemented, there would be incentives for participants to separate into smaller affiliates to achieve the small participant benefits. This would not be efficient. Certain economies of scale are a normal and natural feature of most activities, and all participants should recognize this in establishing and operating their businesses.

In summary, we consider that this proposal seeks to create an unfair advantage for smaller participants without any demonstrable benefit in terms of real increased competition or overall reduced prices to customers. If Ofgem believe the imbalance mechanism is giving inappropriate incentives or is operating inefficiently, or that the forward markets are not developing in an efficient manner, then a separate thorough and considered consultation should be undertaken on these issues.

Rachel Ace
for
British Energy Power & Energy Trading Ltd
British Energy Generation Ltd
Eggborough Power Ltd

P26_ASS_007 – Scottish Power plc

Having given some consideration to the issues raised in "Modification Proposal P26 - Market Driven Trading Neutrality Band (Bizzenergy)", we would like to submit the following comments on behalf of ScottishPower Plc and Manweb Plc: -

In principle, we support Modification Proposal P26. However, the application of a fixed volume deadband would be discriminatory, favouring those participants trading small volumes. Therefore, we would suggest a more equitable approach might see the use of a small and equal percentage of metered volume for each participant when assessing imbalance. It may be worth noting that a similar approach was adopted in the gas market when determining what, if any, imbalance price was appropriate.

We would concur with the proposer that such a change would serve to further the objectives of the BSC in promoting effective competition in the generation and supply of electricity.

I hope that you find these comments helpful,

Regards
James Nixon
Design Authority, Deregulation Services
Calanais Ltd for ScottishPower & Manweb
Int - 700 2316 Ext - 0141 568 2316
http://asg.scottishpower.plc.uk <http://asg.scottishpower.plc.uk/>
(Intranet)

P26_ASS_008 – NGC

The Transmission Company response to the Initial Consultation on Modification P26 is included in ANNEX 5 (Transmission Company Analysis).

P26_ASS_009 – Scottish and Southern Energy

Modification P26 - Market Driven Trading Neutrality Band

Response on behalf of Scottish and Southern Energy, Southern Electric, Keadby Generation Limited and SSE Energy Supply Limited.

In principle, Scottish and Southern Energy support this modification proposal. We believe it will facilitate achievement of the BSC objectives by improving efficiency of current arrangements and promoting more effective competition in generation and supply. We believe it is inappropriate that current arrangements penalise participants for actions which they can not directly control, whether that be due to lack of liquidity or granularity in the spot market, uneconomic transaction costs or inherent demand forecasting errors. We believe the introduction of a neutrality band will remove some of the risk associated with such inherent difficulties and hence provide a greater incentive for participants to balance positions rather than go long, as is currently the case. We believe this will improve the efficiency of the Balancing Mechanism and help limit or reduce the actions required of the System Operator.

Scottish and Southern believe the proposal should be applied equally to all participants rather than a selected few e.g. new entrants, small generators or niche players. All players are experiencing such inherent difficulties to a greater or lesser extent and we believe that the proposals should be applied in a consistent and fair manner.

In the interests of fairness and consistency we believe it is important that the neutrality band be applied on a percentage basis rather than fixed volume. A percentage basis would ensure the benefit is applied proportionally whereas a fixed volume basis would benefit smaller parties to a greater extent and distort competition. An appropriate figure would be 5%.

We believe it is inappropriate to apply the percentage to FPN as this could create a perverse incentive to overestimate the FPN in order to increase the size of the neutrality band. We also believe it is inappropriate to apply it to metered volume as this would potentially penalise parties participating in the Balancing Mechanism. We believe it should be applied to credited energy volumes, this would ensure that those parties using % MVRNs would gain the benefit of this proposal.

We suggest the neutral price should be based on average UKPX price traded over the preceding 24 hours rather than on the last traded price. This would reduce the impact of any price spikes and the ability of participants to manipulate the neutral price.

A “phased” application should be introduced. If a Party’s imbalance is greater than the neutrality band the volume up to the neutrality band threshold should be cashed out at the neutral price. Anything above the threshold should be cashed out at the appropriate SSP or SBP.

Further consideration needs to be given to how this modification proposal might impact on credit cover and settlement calculations, the associated system costs and implementation timescales and the interaction with the current raft of Modifications around cash-out pricing. Consideration also needs to be given to how it will interact with the Balancing Mechanism Non-Delivery rule.

Finally, we agree that the Modification should go to the definition phase.

P26_ASS_010 – Dynegy

Modification Proposal P26: Market-driven trading neutrality band.

The principle objective of NETA was to ensure that market participants were incentivised to achieve a balanced position. Dynegy believe the introduction of trading neutrality band eliminates this objective and could potentially lead to a reduction in trading, as a consequence of market participants no longer being required to fine tune their positions.

The modification proposal includes numerous suggestions to calculate the neutral price that shall be used to cash out imbalances within the neutral band. However this neutral price has the possibility of not reflecting the cost the SO maybe exposed to, leading to a rise in the cost of the balancing mechanism.

Dynegy, as an active trading party within the UK electricity market, disagrees with the proposer's statement of small energy volumes not being available within the market. Since the implementation of NETA, we have undertaken numerous small volume trades and continue to offer such a service. The relevant person to contact is Alex Feuer on 020 8334 7111.

Dynegy do not agree with the proposer that the modification proposal better fulfils BSC objective condition 7A.3(c) of the Transmission Licence. The market has available small energy volumes and therefore the neutrality band is not required. The modification will not promote effective competition between generators and suppliers.

Yours sincerely,
Rekha Patel
Power Regulatory Analyst

P26_ASS_011 – Enron

Modification Proposal P26: Market-Driven Trading Neutrality Band

Response by Enron Europe

16 August 2001

We recommend that the Panel and GEMA reject modification proposal P26. The imbalance price setting mechanism is the best way to resolve issues of imbalance risks – not a trading neutrality band.

We find it difficult to understand the trading issue P26 attempts to address. We understand that UKPX charges a fixed monthly fee and a 6.5p/MWh trade fee. There is no fixed per trade fee or minimum trade volume. We would like BizzEnergy.com to explain what prevents participants from trading energy blocks of less than 20MWh.

Further, a trading neutrality band would, if set to a fixed MWh level, incentivise participants to minimise imbalance risks by registering multiple small companies - each of whom would have a neutrality band. Alternatively, if the neutrality band were proportional to metered output or consumption, it would probably favour large generators / suppliers because imbalances tend to decrease proportionally as participants increase in size. In summary, it would be very difficult to set a "correct" neutrality band that did not impact competition or the efficient operation of the BSC.

The most efficient way to address imbalance risk is by addressing imbalance price risk for all imbalance volumes. If imbalance prices reflected the fundamentals of the energy supply and demand balance in each half hour, most of the imbalance price risk for all participants would disappear. This would address most of the imbalance risk issues while avoiding the perverse incentives created by a trading neutrality band.

In addition, reducing the price risk of being out of balance would encourage participants to take contract positions within day. This would increase within day liquidity – allowing participants to better manage their volume risks through contract trading.

Several modifications attempt to address either imbalance volume risk or imbalance price risk. The assessment of P26 should take account of the potential impact of these modifications on imbalance risks.

While we recommend P26 should be rejected, if it were accepted, we recommend that a single price be used to cash out imbalances within the neutrality band, and that the single price should be based on the value of energy in the half-hour concerned. Any other price would be inefficient. We also recommend that a "phased" application of the neutrality band apply to all participants. An "all or nothing" approach could create perverse behavioural incentives on participants whose imbalance volumes were close to the boundary of the neutrality band.

P26_ASS_012 – PowerGen

Modification Proposal P26: Market-Driven Trading Neutrality Band

Powergen UK plc ('Powergen') welcomes the opportunity to comment on the modification report issued for P26 on 6th August. Powergen provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited and Cottam Development Centre Limited.

Powergen does not support this modification because it believes it is against the principles of NETA and the BSC, namely that:

- it is based on an erroneous premise that trading small volumes on exchanges is uneconomic. In reality, the UKPX generally has reasonable liquidity for individual Settlement Periods, regularly trades in 1MW clips and has a charging structure which is independent of volume;
- it reduces the incentive to balance accurately and therefore does not support the objective to efficiently and economically operate the system (clause 1.2.1 b (ii) of Section B); and
- as a fixed MWh band it introduces discrimination between different classes of players which is contrary to clause 1.2.1 c of Section B

It may also be useful to consider similar 'precedents' that have occurred in the gas market. Modification 0415 proposed an initial reduction of shipper tolerances (ITQ) by 50% and then to zero by 1st April 2001. This was made to incentivise shippers into balancing their positions. It seems strange that while the gas market has phased out tolerance bands, P26 is seeking to introduce a similar band under the BSC in the electricity market. Such a modification would disincentivise parties from accurately balancing their energy position.

In conclusion the proposed modification appears to introduce significant additional complexity and cost to industry and individual company systems with no resulting material economic benefit. As such the proposed modification should be rejected.

Yours Sincerely

Afroze Miah

Strategy & Regulation Department
Energy Trading
Powergen
02476 424814

b Responses from P26 Impact Assessment

Representations were received from the following parties:

No	Company	File Number
1.	Yorkshire Electricity Group	P26_IA_001
2.	Vattenfalls AB	P26_IA_002
3.	Scottish and Southern	P26_IA_003
4.	Economy Power	P26_IA_004
5.	Barking Power	P26_IA_005
6.	SEEBOARD	P26_IA_006
7.	GPU Power	P26_IA_007
8.	London electricity Group	P26_IA_008
9.	Npower Limited	P26_IA_009
10.	Npower Direct Limited	P26_IA_010
11.	Siemens Metering	P26_IA_011
12.	IMServ Europe	P26_IA_012
13.	Bridge of Cally	P26_IA_013
14.	British Energy	P26_IA_014
15.	TXU Europe	P26_IA_015

P26_IA_001 – Yorkshire Electricity

Yorkshire disagree to the above change proposal on the basis of the amount of changes required to systems & processes. This will have major impact on us.

If you have any queries, please let me know.

Emma Coates

Business Analyst, Supply Design Authority

Information Systems Services

Yorkshire Electricity

www.yeg.co.uk

P26_IA_002 – Vattenfalls AB

Here is Vattenfalls response to the consultation.

We agree to the proposed changes.

We require 10 days notice.

Yes, the changes impact Vattenfall.

Comments:

A number of Mod Proposals have been dealing with the System Prices. We are in principle very much in favour of finding ways to improve the way these prices are calculated and applied. However we believe that it might be necessary to take a broader view on the issue, otherwise there is a risk of creating a piece of patchwork with all the different Mod Proposals implemented, that might not be efficient and manageable.

Bo Wahrgren

Vattenfall AB

SE-162 87 Stockholm

Sweden

P26_IA_003 – Scottish and Southern

CPC041 - DLIA Request for Modification P26 and Modification P27

I **agree**/ with the proposed changes.

How much notification do you require? **6 months**

Do the changes stated impact your organisation? **Yes**

Comments:

Name: Susan Macklin

BCA & PACA

Organisation: Scottish and Southern Energy plc, Southern Electric

Date: 24th September 2001

P_26_IA_004 – Economy Power

I disagree with the proposed changes.

Name: Leyton Jones

Organisation: Economy Power

Date: 24/09/01

Cyfarchion / Regards

Leyton Jones

Rheolwr Masnachu Ynni / Energy Trading Manager

P26_IA_005 – Barking Power

CPC041 - DLIA Request for Modification P26 and Modification P27

I ~~agree~~/disagree* with the proposed changes.

How much notification do you require? 6 months

Do the changes stated impact your organisation? Yes

Comments:

Albeit if Barking Power are obliged to make these changes, the 6 months notice period would be effective from the issue of the IDD.

Name: Janice Tanner

BCA/~~PACA~~*

Organisation: Barking Power Ltd

Date: 24 September 2001

P26_IA_006 – SEEBOARD

CPC041 - DLIA Request for Modification P26 and Modification P27

I disagree with the proposed changes.

How much notification do you require? 50 days (subject to other higher priority work on impacted systems).

Do the changes stated impact your organisation? Yes

Comments:

We do not support P26 in either form because we believe that it discourages participants to balance accurately. This could increase overall costs to the system and reduces liquidity, inhibiting the development of products in the forward markets. It is also at odds with developments in the gas regime where a neutrality has been removed.

As a general comment, in all these cases we should ensure that there are no impacts in terms of cost on BSC parties or subsidiaries of these parties not directly impacted by these changes i.e. Public Distribution Service Operators.

Name: DAVE MORTON

BCA/PACA*

Organisation: SEEBOARD

Date: 24TH SEPTEMBER 2001

P26_IA_007 – GPU Power UK

Please find that GPU POWER UK's response is 'No Comment'.

regards

Rachael Gardener

Deregulation Control Group & Distribution Support Office

GPU POWER.CO.UK

P26_IA_008 – London Electricity

CPC041 - DLIA Request for Modification P26 and Modification P27

I agree/~~disagree~~* with the proposed changes.

How much notification do you require? Three Months

Do the changes stated impact your organisation? Yes (See Below)

Comments:

From an I.T. point of view both Modifications will effect our Settlements systems. A high-level impact assessment was that MP26 would cost approx. £16,000, and MP27 would cost approx. £10,000.

Name: Richard Drew

BCA/~~PACA~~*

Organisation: London Electricity Group

Date: 24/09/2001

P26_IA_009 – Npower Limited

CPC041 - DLIA Request for Modification P26 and Modification P27

I ~~agree/~~**disagree*** with the proposed changes.

How much notification do you require? Minimum of 12 months.

Do the changes stated impact your organisation? Yes – a significant number of systems and processes would need amending in order to introduce these changes.

Comments:

Name: Helen Lees

BCA/~~PACA~~*

Organisation: Npower Ltd

Date: 24th September 2001

P26_IA_010 – Npower Direct Limited

CPC041 - DLIA Request for Modification P26 and Modification P27

I ~~agree/~~**disagree*** with the proposed changes.

How much notification do you require? Minimum of 12 months.

Do the changes stated impact your organisation? Yes – a significant number of systems and processes would need amending in order to introduce these changes.

Comments:

Name: Helen Lees

BCA/~~PACA~~*

Organisation: Npower Direct Ltd

Date: 24th September 2001

P26_IA_011 – Siemens Metering Services

CPC041 - DLIA Request for Modification P26 and Modification P27

I agree with the proposed changes.

How much notification do you require?

Do the changes stated impact your organisation? No

Comments:

Name: Lina Shah

BCA/PACA*

Organisation: Siemens Metering Services (Nottingham – Wollaton)

Date: 17/09/01

P26_IA_012 – IMServ Europe

CPC041 - DLIA Request for Modification P26 and Modification P27

I agree/disagree* with the proposed changes.

How much notification do you require?

Do the changes stated impact your organisation?

Comments:

NO IMPACT

Name: CORRINA HARVEY

BCA/PACA* SVA HHDC/HHDA

Organisation: IMSERV EUROPE

Date: 13/09/01

P26_IA_013 – Bridge of Cally Energy Investments Limited

CPC041 - DLIA Request for Modification P26 and Modification P27

No Impact

No notification required.

Stephen Mooney

Bridge of Cally Energy Investments Limited

(Postal response)

P26_IA_014 – British Energy

CPC041 - DLIA Request for Modification P26 and Modification P27

I agree/disagree* with the proposed changes. See Comments below

How much notification do you require? See Comments Below

Do the changes stated impact your organisation? See Comments Below

Comments:

Both options will have a large impact on our settlement validation system.

At least 3 months notice required.

Name: Rachel Ace

BCA/PACA*

Organisation: British Energy Power and Energy Trading, British Energy Generation, Eggborough Power Ltd.

Date: 25th September 2001

P26_IA_015 – TXU Europe

CPC041 - DLIA Request for Modification P26 and Modification P27

Response on behalf of 14 TXU BSC Parties.

We do not support either of the changes (P26 or P27)

Comments:

Our best estimate at present is that either change would cost £150k and take 6 months from the decision of the Authority to implement either Proposal.

Name: Phil Russell

Organisation: TXU (All)

c Responses from Modification Questionnaire

Representations were received from the following parties:

No	Company	File Number
1.	Cinergy	P26_QUE_001
2.	Edison Mission Energy	P26_QUE_002
3.	Scottish and Southern Energy	P26_QUE_003
4.	Amerada Hess	P26_QUE_004
5.	BP	P26_QUE_005
6.	Atlantic Electric and Gas Limited	P26_QUE_006
7.	SEEBOARD	P26_QUE_007
8.	TXU	P26_QUE_008
9.	Bizzenergy	P26_QUE_009
10.	Utility Link	P26_QUE_010
11.	Centrica	P26_QUE_011
12.	APX	P26_QUE_012
13.	British Energy	P26_QUE_013
14.	Intergen	P26_QUE_014
15.	Powergen	P26_QUE_015
16.	Npower	P26_QUE_016
17.	Enron	P26_QUE_017
18.	London Electricity	P26_QUE_018

P26_QUE_001 – Cinergy

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	Active management of expected energy imbalances within forward markets.
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	Establishing a trading desk will require necessary trading systems, traders, back office personnel and settlement systems, risk management and sufficient credit to be able to trade. Staff and systems are likely to cost a minimum of £1m for a small sized business. Third party consolidation services are likely to represent around 5% margin on price. Consolidation services are generally not available due to credit risk associated with small supply business.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	A high degree of granularity is important for fine-tuning small portfolios. Expected changes in a demand forecast will cause the supplier to buy/sell additional volumes. This is often for small volumes on a half-hour basis in order to establish the required bespoke shape. Fine-tuning of purchases is important for a small supplier where the potential exposure is large relative to the value of its customer base (vis-à-vis a large portfolio supplier). It is possible to trade directly in the spot markets provided by APX and UKPX for 1MW lots although in practice liquidity is poor, thereby causing spread prices to be wide. This is partially due to the large degree of vertical integration reducing the need for some parties having to trade. Those parties that do actively participate within the spot market (e.g. NGC, large suppliers, traders) are more concerned with larger volumes than that required by small suppliers.

Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	Subject to cost.
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	Some STOD contracts for fixed volumes may be purchased bilaterally from some market participants, although the cost of such products are likely to be greater than would be available from a liquid market, particularly if the required volumes are small. Variable volume STOD contract (requirement contracts) are not available in the market as outturn demand is likely to vary from expected demand after gate closure.
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	Products to small suppliers are not reasonably priced due to relatively low value of product in relation to high transaction cost of seller (i.e. providers of such products would rather spend their resources trading larger volumes).
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	A fixed volume STOD contract would not resolve the need to fine tune positions closer to gate closure.
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	1MW lots can be traded on a half-hour basis when available within the spot market. However, liquidity in the Half-hour market and four-hour block market is generally poor. Liquidity in the day-ahead OTC market is strong but only for lot sizes of 50MW.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable	Small lot sizes within the spot market are not reasonably priced due to lack of

cost (quantify reasonable)?	liquidity. Spread between bid and offer prices are typically 10 £/MWh.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	There is a large discrepancy between the cost of the day-ahead OTC market and on the day spot market. Day-ahead prices are currently trading around 18 £/MWh with various bids and offers competing for trades. In contrast, the spot market may provide a 13 £/MWh at 23 £/MWh market where it is difficult for prices to converge. Since the spot market is the last market before gate closure, any indication of a distressed buyer or seller may cause prices to move unfavourably or be removed altogether.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	Liquidity remains poor throughout the day for the reasons cited in 1a.
Q3 (c) To what extent is there liquidity in shaped contracts?	Shaped contracts are limited to peaks (0700hrs - 1900hrs) and (to a lesser extent) extended peaks (0700hrs - 2300hrs). However, these are traded in 50MW lots within the prompt market. Some shapes may be available for small volumes on a bilateral basis, but are likely to prove relatively expensive for the reasons cited in Q2a compared with the prices available for larger volumes.

P26_QUE_002 – Edison Mission Energy

Edison Mission Energy Response to P26 Questionnaire on behalf of First Hydro Company, Edison First Power and Lakeland Power.

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	Imbalance risk can be mitigated via trading on the PXs, via brokers or via bilateral trades
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	Small volumes can be traded on UKPX at the same flat rate as larger volumes. UKPX charges approximately 7p/MWh regardless of the size of the trade
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	Any volume in increments of 1MW per half hour can be traded on UKPX
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	This would depend on the certainty of price and the timescales for making/receiving payment for trades. Alternative services would have to be better than the PXs for them to be considered.
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	The UKPX offers the opportunity to purchase whatever contract shape is required, this is made easier easy if only a small volume is needed.

Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	Yes, the market determines the prices on the PXs and it is not volume dependent.
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	STOD contracts, particularly for smaller volumes are infinitely flexible.
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	The minimum purchase on UKPX is 1MW per HH. Liquidity is better if only a small volume is required. It is much harder to purchase 500MW on a PX for a half hour than it is to purchase 5MW
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	Market prices apply regardless of the volume
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	No -please see answers to Qs 1a, 2a and 3a.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	Yes - please see answers to Qs 1b, 2 and 3
Q3 (c) To what extent is there liquidity in shaped contracts?	This depends on the shape and the volume but for smaller shaped contracts there are no liquidity problems.

P26_QUE_003 – Scottish and Southern Energy

Please find attached a copy of our response to the questionnaire issued in relation to the above modification proposal. The response is on behalf of Keadby Generation Ltd, Keadby Development Ltd, SSE Generation Ltd and SSE Energy Supply Ltd.

Regards

Beverley Grubb
Market Development
SSE Energy Supply Limited

Question 1 What services are available for mitigating imbalance exposure risks ? Power exchanges, over the counter trades, own assets, contracts

Question 1a Are these services available at a reasonable cost ? Depends on definition of reasonable, size of participant, volume of trades etc. Set up costs and transaction costs for some power exchanges could be onerous for some participants.

Question 1b Yes these services are available for small volumes, there is no minimum lot size for trades.

Question 1c Yes. The neutrality band being proposed is small and assumes you can get your fundamental underlying position correct. Irrespective of portfolio size you will still need mechanisms to balance your position and irrespective of portfolio size there will be a need for small volume trades. The main issue is not availability it is set-up and transaction cost.

Question 2 Not sure what is meant by STOD contracts. We assume question refers to EFA block, peak and off peak and by load shape, in which case the answer is yes.

Question 2a As above the main issue is set-up and transaction costs.

Question 2b We believe contracts are sufficiently flexible.

Question 3 Granularity down to 1MW

Question 3a Yes

Question 3b Only that as stated above the set-up and transaction costs apply regardless of the volume traded. The smaller the volume being traded the greater the impact of these costs.

Question 3c Generally freely available.

Question 3d There are a range of products available, the liquidity relating to each product can vary.

P26_QUE_004 – Amerada Hess

Please see attached the submission by Amerada Hess.

Amerada Hess would ideally like to submit more details to support its view that current costs of trading due to granularity and liquidity are material - (comparing STOD contracts against cost of trading in the forward and spot markets). As this information is confidential, we would not be prepared to use this for open discussion.
Regards,

Damian Johnson

Q1 Please provide evidence to support your responses, where appropriate.

Question	**Comment**
Q1. What services are available for mitigating imbalance exposure risk?	We are not aware that consolidation services are being offered to the market. Ofgem report to the DTI on the review of the initial impact of NETA on Small Generators, comments on the lack of consolidation services offered to date.
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	It is speculation but it could be: i.) Parties are not yet fully comfortable with NETA to accept risk of other parties: OR ii.) The cost of transferring risk to another party might be too great for a market to develop.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	No.

Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	The answer will depend on what alternative mechanisms are being suggested. If a trading Neutrality Band were implemented, responses would vary according to the size of business. For a larger player, there would be little impact on behaviour because a fixed band would be insignificant as a percentage of the overall physical volumes. For a small supply business, balancing would be to a lower percentage of its physical volumes but the imbalance volumes would be considerably less in aggregate terms in comparison to a larger business. This does not imply that a TNB would jeopardise the emergence of liquidity in the 1MW market as there is no a priori reason why liquidity should develop much more than current levels and no explanation has been offered why it would be likely to increase in the future. In addition, the trade volumes associated with a small supply business are likely to be insignificant in comparison to the reductions in liquidity associated with the integration of ownership in generation and supply in the recent past and future.

Further Comments: Liquidity and Granularity effects in the forward and spot markets is a barrier to entry in electricity supply via the inability to hedge at a reasonable cost. The consumer will ultimately suffer in the longer term if new entrants are discouraged. Centrica has successfully managed to overcome barriers to entry because of its incumbent position in gas supply and the financial strength this gives to withstand large losses in the process of gaining market share to trade larger volumes. A trading neutrality band would offset this barrier if implemented as a fixed band and linked to granularity.

Granularity effects: There is a greater cost per volume traded for small suppliers as price takers paying the full bid offer spread for volumes less than 20MW in both the forward and spot markets. This cost is disproportionate A larger participant trading in 20MW volumes can post bids and offers within the spread.

Liquidity effects: Liquidity in the 1MW prompt market is much more volatile and is characterised by large periods of illiquidity (wide bid offer spreads, relatively few bids and offers). It is more risky for a small business to be using this market to trade a higher percentage of physical requirements so close to gate closure to acquire shape, especially when the market is typically illiquid for many half-hour periods. The potential for significant imbalance exposure is therefore much greater for a smaller supplier

Administrative Trading Costs: Inability to acquire shape for weekend delivery periods unless a seven day, 24 hour operation is established. This cost is also

disproportionate when divided amongst a smaller customer base.	
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	YES – But they would have to be negotiated OTC bilateral due to the nature of their complexity and there is a narrow market in which to contract for this type of contract. Trading OTC bilateral is therefore a poor substitute to trading in fully competitive liquid forward and short term markets via an exchange or OTC brokered markets. – See Further Comments to Q2 and Q3.
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	Probably not because of the relative shortage of flexible plant and the concentration of ownership in the hands of a few. Again, such contracts are negotiated OTC Bilateral.
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	Possibly – Depends on what level of flexibility is requested and how much the buyer is willing to pay for this flexibility. The cost of this could be significant if it were an option to be exercised closed to gate closure.
Further Comments: The EFA Association introduced shape contracts based on 20/40 MW block size combinations (LS44 & LS46) as simplifications of STOD to stimulate trade in shapes. We note trades in these shapes have dropped in 2001. Parties seeking to hedge small volumes therefore now have the choice of seeking STOD contracts with their competitors via negotiated OTC bilateral trades or risk significant imbalance exposure and the associated costs by hedging in the forward and short term markets with granularity and liquidity effects.	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	Granularity of trades tends to be 20MW in the forward market. Baseload contracts are relatively liquidity on most days but is much less for peak contracts. Prices for peak contracts are not widely reported in the near side of the forward curve (months and quarters). Forward market can at times be characterised by large bid offer spreads for certain delivery periods. Only 20MW size trades have the ability to move prices within this spread. The market is very limited for volumes much smaller than 20MW with the certainty of paying a much wider bid offer spread cost. Granularity and liquidity in the shorter term markets is equally important. This

	market is required to acquire shape and fine tune positions, otherwise non-generation portfolio players risk significant imbalance exposure. Liquidity in this market is much less and more volatile.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	No – Unfortunately, this is true in both the forward market and the 1MW market – It should be possible to trade volumes of variable size down to the level of transaction costs without incurring a much wider bid offer spread cost.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	Yes – Imperfect competition and lack of liquidity. Wide bid offer spreads are maintained unless there are significantly more parties willing to trade and/or a need to trade volumes wholesale to hedge physical positions with external parties. As more companies seek to become vertically integrated with balanced portfolios, their only requirement to trade will be at the margin for arbitrage, or for fine tuning positions in response to physical changes.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	No – We understand that there are significant periods of illiquidity in the 1MW market with no prices or volumes quoted at certain times. This market needs to be liquid in all 48 periods, not just significant volumes quoted for individual half hour periods) if this is to become a significant market for hedging. This market is also characterised by granularity effects. The typical minimum trade is significantly more than the 1MW contract size and it is not unusual to see wide bid offer spreads. Again, only the larger players will be in a position to minimise this cost. Anyone seeking smaller volumes will experience wider spreads. It would aid transparency if more information about the depth of the market was published. Information pertaining to the total number of trades, the volumes behind the bids and offers and the size of the spreads would be more indicative of the degree of liquidity. Inspection of traded volumes in the 1MW half-hourly contract market for last week reveals a very high degree of volatility between periods. In most periods

	there is no certainty that there will be a reasonable degree of volume traded. Some of the more well traded half hour periods could be heavily related to one or two large volume trades, especially if there are major physical changes taking place on the system. This volatility in total traded volume is perhaps what should be expected in markets close to real time, especially if many of the larger integrated players are using physical adjustments in preference to trading to fine tune positions.
Q3 (c) To what extent is there liquidity in shaped contracts?	None – Trades in LS44 and LS46 contracts have dropped since the start of NETA. This could be attributed to the reduction in competition between companies following the concentration in supply and generation. These contract shapes were typically purchased by PES's from non-integrated generation businesses seeking to hedge their supply businesses. Such contracts have not been renewed upon expiry in the lead up to and following NETA as generation and supply become more integrated. See further comments.
Further Comments: The market for shaped products has become illiquid and non-transparent since the introduction of NETA. As trades in shaped contracts (LS44 & LS46) typically traded in the OTC brokered market have dropped, OTC bilateral trades have increased. In an opaque market for physical power where there are only a handful of players with the flexibility to offer shaped contracts, bilateral OTC restricts price reporting. This strengthens the negotiating position of shaped contract providers (our competitors in supply to the domestic sector) as they are most likely to know at any point in time how much value there is in trading these contracts. Trading in a fully competitive liquid forward and spot market would therefore be preferable, in which there are tighter bid-offer spreads (to a level of non-material significance) for volumes less than 20MW.	

P26_QUE_005 – BP

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	**1. UKPX (approx 2% of the market), 2. APX (less than 1% of the market, 3. Forward/spot contracts**
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	The power exchange prices do not tend to be reflective of the rest of the market out of office hours. The spot market has limited liquidity and short term options are very expensive.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	The power exchanges lend themselves to small volumes, but not always out of hours. There is no real market for trading less than 10 or 20MWs OTC.
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	Optimisation and risk management will always be the key to our activities, irrespective of what facilities are available to manage imbalance exposure. This is likely to mean that we would use a combination of all the different services available, but we would strongly support the introduction of P26.
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	This is not a product that we trade.
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	

Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	**The forwards market is liquid when one is trading 10 and 20 MW clips. Liquidity is very limited for smaller quantities.**
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	One is likely to pay more than the quoted market prices. The market place for sub 10MW trading tends to be the power exchanges.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	There is a discrepancy and this is also evident on the power exchanges out of office hours. The cause is a lack of liquidity which is the result of the lack of real time ECVNA position reporting (to be addressed by P4) and the levels of SSP and SBP, which hinder short term trading due to the fear of imbalance exposure.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	As previously stated, the small volumes market, which is focused on the PXs, is much more liquid during office hours as that is when the bulk of traders are trading the market.
Q3 (c) To what extent is there liquidity in shaped contracts?	Shaped contracts are a more bespoked market and as such liquidity is not of the same level as the standard OTC markets.

P26_QUE_006 – Atlantic Electric and Gas Limited

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	Purchasing small amounts on the UKPX and the APEX. Of these the UKPX is by far the more liquid and flexible
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	The exchange costs in themselves are not overly penal. However, what is a major problem is that large amounts of cash deposits have to be put up for clearing with a clearer and there are high costs associated with getting the software licences for the exchanges. The problem is not the high costs of the exchanges, but the barriers to entry in getting on the exchanges in the first place.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	These service are available for small volumes – however often there are no offers to buy / sell for certain half hourly and EFA periods. .
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	Buying off exchanges is time consuming, expensive and risky. Any other methods of mitigating risk would be welcome. Being able to move away from fine tuning on exchanges would be excellent!
Further Comments: Under the Electricity Pool there was no need to fine tune so closely. Contracts were taken out to hedge against wholesale prices movements over time, but having a small long or short exposure to the Pool prices was never a problem as the prices were not so risky or so uncertain as imbalance prices. NETA certainly favours large suppliers and generators at a time when Ofgem is trying to encourage competition. This mod would go some way to levelling the playing field.	
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	STOD contracts are generally unavailable in the marketplace.

Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	They are priced at a significant premium
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	Not flexible enough to allow fine tuning of a small supply business. Supply business due to their customer mix have different shapes and so one STOD may suit one player and not another even though they may be of comparative sizes
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	Most trades are in blocks above 20MW – this seems to be the market minimum. The next size is then 40MW and upwards in increments of 10MW. This is due to the fact that these are the sizes larger players trade in and thus have increased liquidity.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	Small volumes are available at higher overall prices. There is also low liquidity in certain time slots leading to large bid / offer spreads and often price spikes associated with some purchases. My definition of reasonable is that small volumes should be available at the same market prices as large volumes and with the same certainty of availability. Any sort of premium costs for the power disadvantages small players, who are already disadvantaged by the commission costs of purchasing small volumes.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	There are discrepancies in costs due to liquidity problems in purchasing small volumes. The small volumes are just not offered fin the same quantities. I also have a view that small flexible generators can offer to sell at high prices and have very different physical and commercial characteristics to larger generators. The lack of bids / offers for small volumes and short time intervals is due to the fact that the larger players do not have to get involved in this type of trading. Large generators sell their output in large blocks and large suppliers, due to demand forecasting errors, only need to buy to the

	nearest big block – if a demand forecast was 1,013MW for a half hour for example then as this would be typically around 4% inaccurate anyway then either 1,000MW or 1,020MW would be bought
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	These small volumes are often not available or are highly priced and can only be bought much closer to real time than the larger blocks which can be purchased much further out. This has the effect of making it harder for smaller suppliers to hedge their wholesale price exposure as they cannot buy all of it in advance when they agree to supply customers on a tariff.
Q3 (c) To what extent is there liquidity in shaped contracts?	Liquidity in shaped contracts is much lower than for base and peak shapes. Costs as a result are higher
Further Comments: Half hourly shaping for small amounts requires a weekend resource as half hourly shapes are only available on day +1 at the earliest. This adds further costs on to smaller players.	

P26_QUE_007 – SEEBOARD

SEEBOARD have no comments on those questions detailed within the questionnaire circulated for modification proposal P26.

Dave Morton
SEEBOARD

P26_QUE_008 – TXU

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	We already provide a service to smaller players whereby we take on their imbalance exposure through the MVRN arrangements.
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	The cost is dependent on the portfolio of the counterparty.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	Yes
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	We would continue to develop services while there was a demand for them.
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	Yes
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	Yes, market price
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	Yes

Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	Yes
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	No
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	Yes
Q3 (c) To what extent is there liquidity in shaped contracts?	moderate

P26_QUE_009 – Bizzenergy

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	1. Trading in various exchanges 2. Consolidation 3. Tariff rate offers 4. Financial Products None of the services remove all the residual risk. All services continue to incentivise parties to balance as accurately as they can. For example: Tariff structures have this implied within the risk premia paid for the contract also they may contain caps on imbalances.
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	1. Trading on various exchanges suffers from the defined problem of granularity for the smaller player. The cost is unreasonable if it materially disadvantages small players relative to larger ones. The financial impact is almost directly related to the size of portfolio, a 400GWh portfolio imbalance costs are 50 times greater than a 20TWh costs for the same 20MWh error. For a small player taking a £2/MWh spread increases the cost of purchases by 2.2%. In a business where margins are generally less than this, it is unacceptable. 2. Small traders are always likely to have to take the price spread, but larger players will tend to be able to trade in the middle of the spread. 3. Entry costs to the UKPX are prohibitively high for smaller players when spread across the likely traded volumes. They present a real

	barrier to entry. Other exchanges are slightly cheaper, but have even less liquidity than the UKPX. 4. Consolidation offers are similar to STOD or market access fees. 5. Tariff rates offered are typically, £5000/month fixed fee plus 10% of exchange price. STOD tariffs would be expected to be at a similar premium to the market. Thes costs are significant for small players when spread across small volumes. 6. Financial products have been available from one player, but the risk premia built into them made them prohibitively expensive.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	Several players have indicated that they would be prepared to offer such services and within such will offer any degree of resolution. However, the smaller the transactions the greater the costs and there is a point around which a conventional traded solution does not work due to the transaction costs being a material portion of the underlying value. Firm offers have been difficult to access from most players.
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	Yes, if they continued to remove risk from participating in the market.
Further Comments: A reasonable cost is where the there is no discrimination in purchasing costs and risk management between small and large players.	
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	Yes, but only from one offer has been received. Most of the larger organisations do not wish to be bothered with the complexity of entering structured transactions with smaller players. The volumes and value do not justify the transaction costs. If they do quote costs are generally very high.

Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	The cost of them is most likely to be only a marginal improvement on the opportunity cost of the purchaser trading directly in the exchange. Therefore unless there is healthy competition in these products they will not provide an alternative to mod P26. It is unlikely given the size of the market opportunity that healthy competition in the delivery of such products will exist.
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	STOD by their nature are aggregated, which implies risks of price/take mismatch and hence an inbuilt premium. A fully disaggregated HH STOD tariffs are not on offer. The likelihood of them being so is low due to the cost and complexity of transacting individual small volumes in individual HH. A transaction cost to the seller is likely to be in the range £10-!5, against an underlying value of power between £5-40/MWh.
Further Comments: Large players and trader are looking at volumes of trade greater than can be guaranteed through STOD type contracts. Large option fees or high premia therefore exist. These however reasonable on behalf of the seller are an additional cost for the smaller player for which there is no other compensatory factors under NETA.	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	The market can trade down to 1 MW, indeed a few small trades have been done. Typical trades are in the range 25MW to 100MW.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	20-30MW trades can typically be done at mid-point of the bid-offer spread. Volumes below this typically are price takers of the spread which ranges from £1-20/MWh. Thus the disadvantage to smaller trades is crudely half the spread.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	Yes for reason stated above. The causes are: 1. The significance of a sub 20MW trade to a large player is immaterial,

	i.e. 20MW/5000MW = 0.4%, but 20MW/100MW = 20% 2. Vertically integrated players will adjust their generation to match the position rather than make minor trades
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	The exchanges do not always have product available for every HH.
Q3 (c) To what extent is there liquidity in shaped contracts?	There is not any form of liquid market, structured transactions frequently take months to develop. We have not yet seen any form of transaction that contains obligations within these to always offer reasonable prices on demand.
Further Comments: General comment: The lack of liquidity and granularity of markets impacts all players. The effect though is much greater on smaller players. The net result is that the current circumstances are not promoting competition in the market, due in part to effects such as this.	

P26_QUE_010 – Utility Link

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	i) 100 % reallocation of Meter volumes to a third party trader ii) Financial instrument to fix imbalance exposure risk iii) Balancing position through Power Exchanges
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	Services are not available to us for three reasons: i) 100% reallocation of meter volumes means that you hand over your complete trading portfolio to a third party and they trade it on your behalf, mitigating risk against other volumes in their portfolio. Our experience of these types of contracts is they are subject to a minimum monthly fee and the transaction costs at small volumes can be a significant proportion of the traded value. ii) Financial instruments to mitigated imbalance exposure, were available to us for the first month of the new trading arrangements at reasonable cost. These contracts are no longer available as imbalance has proved to be much higher than expected and the service provider was not prepared to offer the same contract again iii) The Power Exchange trades in minimum volumes of 1MW. On a portfolio of 10 MW this is 10% that could be exposed in the balancing mechanism, and as such this is not an option for the smaller player to "fine tune" their portfolio.
Q1 (b) Are these services available for small volumes – i.e. is there a level of	Small volumes mean:

granularity and is this important? If these services are not available for small volumes, why do you think this is?	i) excessive cost because of the minimum monthly fee and transaction cost ii) services no longer available for the smaller volumes iii) the 1MW minimum trade, which is not flexible enough for balancing a small portfolio
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	A mechanism to help us minimise our exposure would be very welcome. If it were along the lines of a neutrality band, a non-contracted position would still be exposed to a non-fixed price and hence be a risk. Hence for the smaller players there would still be a considerable incentive to balance the position, without facing penal prices. Such a mechanism would just provide a means of ameliorating the disproportionate risks faced at the smaller end of the market, where there are few economic market tools available to do this.
Further Comments: This modification would also provide some benefit to suppliers managing embedded generation portfolios, in particular those portfolios which are more difficult to forecast i.e. Wind power, and would provide suppliers and consolidators with better tools for managing such portfolios which are made up of relatively small blocks of power.	
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	The STOD contracts are available at small volumes, but they are subject to high transaction costs (cost per trade irrespective of volume) and a minimum monthly fee. These are essentially the meter volume reallocation contracts mentioned above.
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	We feel these are reasonably priced in the current market conditions. The market signals are skewed by the volatility in the SSP and SBP, hence most providers will have at least a 24/7 operation, which carry the appropriate overheads. Hence the minimum monthly fees and the transaction costs, necessary to support such a team.

Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	It is fairly self evident from the power exchanges that there is a lack of liquidity in the power exchanges. The lack of liquidity is particularly evident at the smaller end of the market, all the power exchanges freely admit this, in discussions that we have had with power exchanges such as APX and Powerex.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	Our current position is that normally we buy forward contracts of below 5 MW in any half-hour. To purchase on the power exchanges to match our shape would be a mixture of base and peak contracts. Closer to time we would need to fine-tune our position to avoid significant cash-out penalities. Since the minimum contract size in the quoted markets is 1 MW, our accuracy of matching our contracts with our position would be 20%! This would be a significant cost based on the current cash out prices.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	The answer to Q3 means that we cannot buy contracts in the keener priced block forwards markets. We have to buy shaped contracts, which are available, but at a higher price than buying a combination of base and peak contracts.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	Our perception of the market is that there is no liquidity in the smaller end of the market (1MW) irrespective of time. The liquidity issues are related to the skewed risk from SSP and SBP. This encourages most players to be long, so fine tuning to a position is not encouraged. The introduction of a dead-band, would mean that more companies, like ours, could use the power exchanges, and encourage

	liquidity.
Q3 (c) To what extent is there liquidity in shaped contracts?	There are only one or two organisations that offer shaped contracts. These tend to only be available for a minimum of a month period.
Further Comments With the questions on liquidity, I would suggest that a report from the power exchanges would be helpful to ascertain the levels of liquidity in the block markets at the 1MW end and whether they have had any shape activity on their OTC trades.	

P26_QUE_011 – Centrica

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	**Balancing contracts are available and the UKPX half hourly market.**
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	**Yes. Balancing contracts are available at minimal cost and they are negotiable.**
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	**Yes the services are available for small volumes. The level of granularity could be important. It depends on the accuracy of demand forecasts.**
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	**No, most demand forecasts are accurate to 20MW for small players at present. A TNB of 20MW would mean players could balance their own position so there would be little point in offering services to balance within the TNB if it were introduced.**
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this	

is?	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	**There is a fair degree of liquidity in forwards markets.**
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	**Yes in the short term, not so much in the long term.**
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	**There is some discrepancy between the costs of smaller and larger volumes.**
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	**Small volumes are available without limitations.**
Q3 (c) To what extent is there liquidity in shaped contracts?	**These contracts are not really a traded market. They are done through bilateral contracts.**
Further Comments: **UKPX start up costs are very high with a monthly minimum commission fee. If only small volumes are to be traded Parties might consider it to be an unacceptable cost.**	

P26_QUE_012 – APX

Further Comments:

In considering Modification P26, Automated Power Exchange (UK) Limited would like to make the following points with regard to the options available for trading. APX believes it systems, products and services are ideally suited to companies with smaller volumes to trade.

- The software required to trade on the APX Market is free and downloadable on to a standard PC; connection to the APX Market can be facilitated via the internet. Participants do not need a dedicated line or terminal.
- Trading fees associated with trading on APX are approximately 0.25% of the cost of the energy traded making trading on the exchange a cost effective and efficient method of covering an expected exposure.
- The minimum contract size is 1MW
- APX offers a range of products from the Half-Hour to Weekday strips. All products are cleared by APX thereby negating the need to negotiate individual GTMAs with all industry participants.
- Volumes being traded on the exchange and across all the exchanges are increasing as companies utilise the variety of trading options available to them. Following the introduction of NETA, liquidity in traded electricity contracts has increased significantly and is set to be a continuing trend. If the pattern of others markets is to be followed then transaction costs are likely to fall as a result.

P26_QUE_013 – British Energy

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	**Contracts made in advance of gate closure!** **Exchanges provide capability down to 1MW in each half-hour at the day-ahead stage at reasonable cost. We believe OTC and other markets are or will shortly be available through "aggregators" and/or risk management providers, and that further such providers will come forward in the future.**
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	The basic cost of exchange traded contracts is the same for all parties, with discounts available for high volumes. Current prices in the range 2.5-6.5 p/MWh at this stage of market development do not seem obviously unreasonable. It may be possible to negotiate lower costs for bilateral or aggregator arrangements.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important?	Yes, 1MW by half-hour (ie. 0.5 MWh) on exchanges, see above.
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	Use of a "neutrality band" or other methods of reducing imbalance exposure would reduce incentives for providers to develop aggregation and Risk Management products.
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	Not much liquidity, but exchanges provide facility for balancing volumes down to 1 MW per half-hour at the day-ahead stage. There does not appear to be demand for very small volumes STOD contracts.
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)?	See above.

If they are not reasonably priced, why do you think this is?	
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	Exchanges provide flexibility. Administrative overheads for bilateral and OTC contracts make them unattractive for small volumes. This is true in any market.
Further Comments: **Detailed information on electricity markets is readily available from publications such as the Heren Report and Petroleum Argus as well as from websites such as Enron Online, and from exchanges such as UKPX.**	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	**At day-ahead, OTC half-hour blocks of 20MW with total traded volume 500-1000MW are typical. On UKPX, 250-300MW per half-hour, with granularity down to 1MW occurs, although some periods have little trade.**
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	Assuming 20MWh per half-hour, OTC/Bilateral opportunities are limited. Exchanges do provide capability.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	Discounts for large volumes traded over a period of time are available. This is normal trading practice and cannot be viewed as discriminatory against smaller participants.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	Overnight liquidity is often less than daytime, but is nevertheless generally available. Probably cause is the smaller size of the market at night, and non-24-hour trading by some participants. More participation of small players might encourage liquidity.
Q3 (c) To what extent is there liquidity in shaped contracts?	Exchanges can provide great flexibility. BE have not experienced significant demand for small bilateral shaped contracts.

P26_QUE_014 – Intergen

Q1 Please provide evidence to support your responses, where appropriate.

Question	**Comment**
Q1. What services are available for mitigating imbalance exposure risk?	OTC, brokered, bi-lateral, Web based and PX trading.
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	All trading requires credit to be lodged. Brokerage fees are expected but can reasonably be avoided by trading direct with counterparty. Power Exchanges have relatively high costs due to cost of start-up and notification fees. However, the highest cost with PX trading is the unfavourable price spread due to lack of liquidity.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	Granularity is important if you wish to mitigate all exposure to system prices. Power Exchanges are the only place where small volumes can be traded easily in different volumes per period. Other forms of trading are geared toward higher volumes.
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	Yes, we would wish to explore all options and use the most economically viable at that time.

Further Comments:

A key issue is the lack of liquidity in PX markets and the limited number of small volume OTC trades. The lack of confidence in WD notification is a problem which may be partially addressed by more frequent ECVAA reporting.

Introducing a neutrality band would potentially deter parties from balancing their positions.

A small number of large players have adopted a revised Schedule 3 to facilitate WD trading among the group. To our knowledge there are no small parties in

this group.	
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	N/A
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	N/A
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	N/A
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	Very limited – 50MW normally on prompt forward markets. Small volumes only available to trade on PX.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	The smaller the volume the higher the premium. On PX, the closer to gate-closure you trade the higher the premium tends to be. If a neutrality band was introduced, the combination of knowing the band is there plus the close to real time premium could deter parties from balancing.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	Some counterparties try to extract a premium for volumes less than 50MW claiming they are an unusual size. The cause of the discrepancy is likely to be a perception by the counterparty that any party wishing to trade a smaller volume than 50MW really **needs** to do the deal and are therefore willing to pay more.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time	In brokered markets smaller volumes tend to be traded later in the day. There is availability on PX 24 hours except during system outages or during

/ day availability limitations? If there are liquidity issues, why do you think this is?	planned daily shutdown.
Q3 (c) To what extent is there liquidity in shaped contracts?	Not in a position to comment.

P26_QUE_015 – Powergen

Proposed Variation to BSC – Modification Proposal No: 26 – Market-Driven Neutrality Band - Questionnaire

Powergen UK plc ('Powergen') welcomes the opportunity to comment on the questionnaire issued for P26 on 28th September. Powergen provides this response on behalf of itself and the following BSC Parties: Powergen Energy plc, Diamond Power Generation Limited and Cottam Development Centre Limited.

We do not support this modification. We believe that the NETA arrangements have not been given sufficient time to bed down nor for parties to gain experience and confidence in them before the industry moves on to changing the arrangements. We believe that once parties gain more understanding of the new market arrangements there will be more liquidity and flexibility in contracts in both the short-term and forwards markets. Any modifications now would be premature especially as the industry has not yet experienced NETA under a Winter scenario.

Please see our response on the attachment below.

Yours Sincerely

Afroze Miah

Strategy & Regulation Department
Energy Trading
Powergen
02476 424814

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	Counterparties can contract with other counterparties (e.g. consolidators, suppliers) that are prepared to provide balancing / trading services
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	Yes. Reasonable cost would cover the costs associated with providing the service plus a reasonable margin, plus cover whatever risks the counterparty is transferring.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	You need to define 'small volumes'. But generally services should be available for smaller volumes i.e. <5 MW. These services may not be available if smaller parties believe the costs associated are too prohibitive and therefore do not go to consolidators and others for such services.
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	It depends on the alternative mechanisms, but we would still consider developing alternate services.
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	Small generators – yes Suppliers – we have not had any enquiries from them but would offer such contracts if they are required
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	They are competitively priced.
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this	Generators – yes, flexibility is included. Suppliers – we have done these in the past, based on weather corrections

is?	and customer numbers
Further Comments: There has been reluctance on parties to do contracts because they are not sure how to price contracts under the NETA environment. The new arrangements are still very new and we have not yet experienced a winter therefore parties have not entered into negotiations. As parties gain more experience of and confidence in NETA, we expect more contracts to be concluded.	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	Granularity has been below 10 MWh at times. This can be done at market if there are parties who want to do it. Liquidity: Day Ahead – between 1,000 – 1,500 MWh traded and is increasing Week Ahead – between 2,500 – 3,000 MWh and increasing Month Ahead – over 15,000 MWh at times, there has been increasing liquidity
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	Can be reasonably done at market price
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	No, there is very little discrepancy between small and large volumes
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	The market, in general, is more liquid during the night thereby affecting both small and large volumes similarly. Night volumes are less liquid, but it should be easier
Q3 (c) To what extent is there liquidity in shaped contracts?	Depends on the product: - peak products 12 hour weekday – liquid - otherwise by their nature they are OTC products

P26_QUE_016 – Npower

Please find the attached response on behalf of Innogy plc, Innogy Cogeneration Trading Ltd, Npower Ltd; Npower Northern Ltd, Npower Yorkshire Ltd, npower direct Ltd.

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	BSC parties can use MVRNs and ECVNs to manage their imbalance exposure. Suppliers (in SVA and CVA) and traders (in CVA) offer consolidation services to embedded generators to reduce imbalance exposure. This occurs through aggregation with other consumption account imbalances. We had expected the service to be provided by consolidators to embedded generators and small suppliers. However, there is not a specific role for consolidators because the rules to allow them to offer services were not introduced under NETA.
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	We are not aware of suppliers or traders offering generic services to purchase imbalances other than through STOD tables and fixed prices.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	We do not think they are available for small volumes. Again, we believe that the market is relatively immature.
Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	If alternative methods of mitigating imbalance exposure were introduced, there would still be a need for the market to create solutions for volumes in excess of the amounts protected by the new alternative methods. We expect that development would take place in these areas.
Q2. Are STOD (Seasonal Time of Day) contracts available for small	Yes, they are available.

volumes? If not, why do you think this is?	
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	The cost is expressed in a fixed price for a variable volume, priced at a discount to the forward curve. The market derives these discounts and reflects the suppliers' or traders' appetite for imbalances.
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	STOD tables can be desegregated down to the granularity of individual half-hour contract periods. We believe that they can be very flexible.
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	We believe that trades of as little as 5 MWh can be executed in the forward markets.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	Yes.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	Costs are relative. If the commission charge for a small trade is large, it has to be viewed in relation to a cash-out charge would could be a) unknown and b) much larger.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	The market is not liquid but it is possible to close out positions in the forward markets with relatively small volumes.
Q3 (c) To what extent is their liquidity in shaped contracts?	We are not aware of significant liquidity in these products.

P26_QUE_017 – Enron

Q1 Please provide evidence to support your responses, where appropriate.

Question	Comment
Q1. What services are available for mitigating imbalance exposure risk?	Aggregators such as Enron provide risk management services to both generators and suppliers. These services take many forms. An embedded generator could have its meter registered with a supplier and have its output netted off the supplier's demand. The recent approval of Mod P7 makes this service more flexible. Embedded generators have the option of registering their meters in the central systems and either managing their own imbalance risk through contract trading, or allocating their metered output to a third party and passing on some or all of the imbalance risk. Innovative solutions are being used to manage the imbalance risk of aggregators. For example, information links between the aggregator and embedded generators allow embedded generators to update their output predictions as Gate Closure approaches, enabling the aggregator to better manage imbalances.
Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)? If these services are not available, why do you think this is?	The price for aggregation services largely depends on who takes the imbalance risk and the nature of the imbalance risk. For example, supply is well suited to aggregation because of the portfolio effect acting on many small fluctuations. Generation is less well suited to aggregation because the portfolio effect is less pronounced for the relatively few large output fluctuations related to trip risk. If the aggregator takes on the trip risk, it factors this into the price it is willing to pay an embedded generator for output.
Q1 (b) Are these services available for small volumes – i.e. is there a level of granularity and is this important? If these services are not available for small volumes, why do you think this is?	Aggregation services are available to large and small customers alike. However, the administrative cost of arranging specialised contracts for aggregation services may be a deterrent for very small players, eg, 1MW players.

Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?	
Q2. Are STOD (Seasonal Time of Day) contracts available for small volumes? If not, why do you think this is?	STOD contracts are typically available for large consumers with volumes in the range 2 to 200GWh per year, although larger volumes may be contracted.
Q2 (a) Are they reasonably priced (please quantify what you believe to be reasonable)? If they are not reasonably priced, why do you think this is?	
Q2 (b) Are they sufficiently flexible? If available STOD contracts are not sufficiently flexible, why do you think this is?	
Q3. What do you believe the granularity of trades and associated liquidity in the forwards market to be?	The PXs trade half-hourly contracts day-ahead and within day for quantities as low as 1MW, and 1MW trades are often seen. Liquidity varies by settlement period and declines (bid-offer spreads widen) as real time approaches. It is actually easier to trade small volumes than large volumes, because of the low depth in the half hour markets. In forward markets, 5MW blocks can be readily traded over the counter (OTC), through brokers and on Enron online. The GTMA block size (20MW) does not preclude trades of smaller blocks. Liquidity is very good out to 3 years, as demonstrated by bid-offer spreads in the order of between 1 and 20p/MWh.
Q3 (a) Are small volumes (say less than 20MWh) available at a reasonable cost (quantify reasonable)?	PX trades are charged according to volume, which means there is no barrier to small volume trades. Enron online trades and bilateral trades incur no explicit trade charge, and brokered deals incur a volume related charge. In all 3 cases there is no barrier to small volume trades. There is no evidence that small blocks trade

	at different prices to larger blocks. Spectron has a fixed and variable trade charge.
Q3 (b) Is there a discrepancy between the costs for these small volumes and costs of larger volumes? If there is such a discrepancy, what do you think causes it?	With the exception of Spectron, trade charges are proportional to volume, or included in quoted prices. This means there is no discrimination between trade charges for small and large volume deals.
Q3 (c) Are these small volumes freely available (i.e. liquid) or are there time / day availability limitations? If there are liquidity issues, why do you think this is?	In the PXs it is easier to trade small volumes than large volumes because of the lack of depth in the half-hourly markets. In forward markets small blocks can be freely traded. A 5MW bid or offer will be lifted if it is at a competitive price.
Q3 (c) To what extent is there liquidity in shaped contracts?	PXs trade half-hourly blocks day-ahead and within day, which means any shape can be traded. Peaks, off-peaks, baseload and other standard shapes are readily available on forward markets.
Further Comments: The ability to trade in forward markets is irrelevant to assessment of the proposed trading neutrality band. The alternative to trading in forward contracts is to trade in the half hour power exchanges and it has been argued that the trading neutrality band is necessary because the half hour exchanges do not provide sufficient risk management options. However, the trading neutrality band simply mirrors the power exchanges and does not provide an additional risk management option. This is because Mod P26 proposes to cash out small imbalances at a price related to the UKPX price and cashing out an imbalance at the UKPX price is no different to trading a contract in the UKPX. Therefore, even if it were the case that small players could not trade effectively in forward contract markets (something that they can do), the proposed trading neutrality band would not address this issue. Rather, the proposed trading neutrality band reduces the importance of aggregation, contract trading (whether forward or spot) and good forecasting.	

P26_QUE_018 – London Electricity

Q1. What services are available for mitigating imbalance exposure risk?

Commercial generator breakdown insurance from Marsh and McLellan. Explicitly excludes new or commissioning gensets

Q1 (a) Are these services available at a reasonable cost (quantify what you believe to be a reasonable cost)?

Cost is arguably very high for cover offered. (Unwilling to give further details).

Q1 (b) Are these services available for small volumes - i.e. is there a level of granularity and is this important?

Yes

If these services are not available for small volumes, why do you think this is?

Q1 (c) If alternative mechanisms were available within the Balancing and Settlement Code for mitigating imbalance exposure, would you continue to use / develop alternate services?

Yes. There is always going to be some cost to being out of balance – that is virtually a design objective of the market (i.e. the selection of two prices for settlement makes this the case).