



**CHEMICAL INDUSTRIES**  
ASSOCIATION

7 February 2008  
cc Richard Clarke, Elexon

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**Modification Proposal P219 Consistency between Forecast and Out-turn Demand**

Richard thank you for update in regards to the modification groups' decision that P219 should be rejected on the grounds that the applicable BSC Objectives would not be better facilitated. We fully support the increased information as proposed in this modification (as well as in P220) and are disappointed with the groups decision.

As with our response to modification P220 we believe increase transparent information is important to the effective functioning of a competitive electricity market by allowing market participants (who currently do not have adequate resources to analyse current information provisions) to have a greater understanding of the market, allowing better informed commercial decisions and promoting competition further.

We note that in summary of the first consultation that "the unanimous view from consultation respondents was that the increase in transparency and consistency would be beneficial to all participants but did not quantify this benefit in sufficient detail for the panel to make a considered recommendation". We also understand that despite this view the group decided to reject this proposal in part due to the lack of response from DSWG members of the qualitative or quantitative benefits. Although I cannot comment on behalf of all DSWG members I feel the lack of response demonstrates not only the difficulty in assessing the benefits of additional transparent information (as with P220) but also the limited resources of smaller market participants to fully respond to all consultations.

Although we have indicated that it is hard to make a cost based assessment – fundamentally, improved information as proposed in P219 will lead to a more efficient market – and that should mean lower prices. An assumed saving of only £0.5/MWhour through the implementation of this modification would lead to savings of approximately £7.5million for the chemical sector alone\* a vast difference to the implementation costs of this modification proposal.

I hope this response will provide some justification of the benefits in implementing this modification.

Gareth Davies  
Climate Change and Energy Executive  
Chemical Industries Association

\*Total annual consumption by the Chemical Sector during 2005 as reported by DUKES (Digest of United Kingdom Energy Statistics) as published by the DTI (Department for Trade and Industry).



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# cornwallenergyassociates

5 February 2008

Andrew Wallace, Ofgem

cc Richard Clarke, Elexon



## P219

Thank you for your update on the P219 assessment report. As a regular attendee at DSWG, I thought I would provide some observations. Above all, I think the modification group is misguided in changing its recommendation.

While we need to see what the modification group's report says, I am surprised by the change in recommendation. The group previously recommended acceptance of the proposal but it was only on the thinness of the analysis provided in support of the benefits that the report was remitted back to it, not on the principle of the modification, which the panel minutes suggest the panel was inclined to accept. The limited responses received in response to the second assessment consultation evidence the difficulty in accurate quantification, not just with respect to the proposal itself, but it also reflects the competing pressures on market participants at a time when many important consultations with potentially wide-ranging commercial impacts are live.

Of course Cornwall Energy is not a direct market participant but the company has close relationships with many smaller players in the market, especially on the supply side. While we do not in any way represent any class of participant, it is fair to say many smaller, independent suppliers support the principle behind modification such as P219 (and indeed P220).

In assessing the merits of the change, care is required because of the costs that invariably arise from any changes to the central trading systems, which means any change that impacts on industry processes faces a high cost hurdle.

But the benefits associated with the P219 change proposal are real, even if they are hard to quantify. Even for rule change proposals that are expected to have a significant market impact, judgments have to be made. To

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illustrate even after several months assessment, it was not possible in the context of P211 and P212 to accurately estimate impacts on balancing costs.

Nevertheless in the case of P219 we know that:

- the net costs of energy imbalance targeted on out of balance parties as represented by RCRC payments is presently to the order of £120mn per annum. An improvement in supplier forecasting across the market equivalent leading to even a 1% enhancement in exposure to imbalance would deliver benefits of £1.2mn;
- independent suppliers are more prone to imbalance exposure. Assuming independent supplier volumes account for less than 10% of total volumes, the average imbalance can be up in excess of a factor of twice that of integrated players. A 5% improvement in their derivation of their demand forecasts would thus crystallise a similar level of saving assuming there was a consequential impact on the imbalance exposure of this class of participant; and
- based on National Grid analysis tabled during the assessment of P212, the SO concluded that, the expected costs to the SO—even if the assumption were made that the average magnitude of NIV will not change but the standard deviation would—could increase. The SO's initial estimate for P212 was that a 10% increase in the standard deviation of NIV would impose extra costs of approximately £16mn per annum on grid users. Vice versa if the standard deviation were to reduce, a similar saving would arise. These costs already feed through in the BSUoS charge. Even a very modest reduction in standard deviation of 1% against the current baseline would thus give rise to savings of the order of £1-2mn based on National Grid's analysis.

There are various probabilities surrounding these estimates and it would be misleading to treat them as additive. But what is clear is that even if such benefits were realised to even a modest estimate they would more than offset the large costs estimated as associated with this modification.

I would be happy for you to circulate this letter to members of the DSWG. I am also copying it to members of the Energy Suppliers Forum, to see if they wish to add anything.

I will not be at the meeting on the 12<sup>th</sup>, but hope you have a constructive debate on the P219 proposal.

Yours etc,

**Bob Brown**  
**Associate Consultant**  
**Cornwall Energy**

**The Major Energy Users Council wish to support implementation of mod P219.**

I would suggest that the opening sentence of the modification would make the cost of implementation irrelevant: -

*"Proposed Modification P219 seeks to address ambiguity surrounding the forecast and out-turn data reported on the BMRS (Balancing Mechanism Reporting System) and to align the BSC definitions with the Grid Code. "*

Ambiguity of data reported must be corrected.

It is clear when reading the reports for mods P219 and P220 that the recommendations of both groups come from members with voting rights who are large players in the industry who have developed their own systems for retrieving and analysing data from various sources.

Changes in the market require that simple easy to access information is required for all participants who do not have the resources to develop their own systems.

Therefore I believe that the expenditure on implementing mod P219 is justified.

Regards, Eddie

Eddie Proffitt  
Gas Group Chairman  
Major Energy Users Council