

P211 ALTERNATIVE TRANSMISSION COMPANY ANALYSIS AND IMPACT ASSESSMENT – RESPONSE PRO-FORMA

In accordance with paragraph F 2.8 of the Code, please respond to the following questions concerning P211 Alternative (including the rationale for each response):

Q	Question	Response
1	Please outline any impact of the Alternative Modification on the ability of the Transmission Company to discharge its obligations efficiently under the Transmission Licence and on its ability to operate an efficient, economical and co-ordinated transmission system.	Please see response to question 2
2	Please outline the views and rationale of the Transmission Company as to whether the Alternative Modification would better facilitate achievement of the Applicable BSC Objectives.	<p>In principle an imbalance price methodology that takes consideration of the physical ability of plant to deliver energy at real time, through incorporation of dynamic parameters, improves upon the original proposal in two regards. It more accurately identifies the actions that were available for the SO to utilise in real time and it reduces the likely occurrence of intentional or unintentional price distortion by excluding inaccessible plant that could be submitting prices unreflective of the market price of energy. It would also, like the original, be transparent in that the algebraic methodology would be laid down in the BSC.</p> <p>However this methodology attains these objectives at the expense of others. In order to incorporate the numerous dynamic variables used to describe the characteristics of generation, the algebraic formula would be complex and we would imagine that its implementation would be more costly than the original. Although more accurate than the original proposal, the complexity of real time energy balancing means that the alternative must make a number of assumptions and approximations in order to capture the costs of energy balancing and so is potentially exposed to a degree of inaccuracy.</p> <p>The trade offs made in the alternative proposal make it unclear as to whether such a methodology reflects the actual costs of energy balancing more accurately than the current baseline. Unfortunately no analysis has been provided that would enable us to draw any conclusions on this point.</p> <p>As part of assessing the ability of the alternative to measure up to these objectives it is also necessary to make</p>

	<p>an assessment on how such a price methodology would influence market behaviour.</p> <p>In as much as market participants are able to make judgements on their energy positions in relation to the amount of Imbalance they will carry in to gate closure, this judgement will be driven by the expected value of Imbalance prices in relation to the forward market price. Therefore both the expectation of imbalance prices and the certainty that can be placed on this expectation will influence participants imbalance positions and hence, in aggregate, the value of NIV.</p> <p>Whilst the analysis is not yet complete it is generally accepted that the imbalance price methodology proposed in both this alternative and the original P211 proposals will generate a lower, or similar, SBP price in comparison to the present methodology for all comparable scenarios. Conversely it will generate a higher, or similar, SSP price in comparison to the present methodology for all comparable scenarios. If the differential between the forward price and imbalance price reduces then it is likely that some current market behaviours will be magnified. In settlement periods where NIV is consistently short, such as weekday demand peaks over the winter, it is our expectation that the market will go shorter. It is less clear whether NIV will go longer over periods where the market is consistently long. Generation BMU may consistently spill off peak and overnight for reasons which would continue to dominate over price. The length of the market in such periods may be as much a consequence of generators reluctance to two shift plant than it is to spill and recoup SSP.</p> <p>However our initial view, which would be reassessed in the light of any quantitative analysis presented, is that although this modification may reinforce some of the current behaviours of NIV and may have some commercial consequences we do not believe that there will be any increase in NIV volatility. As such we do not believe that the efficiency with which we were able to resolve the level of imbalance presented to us by the market would be significantly different. In this regard we do not believe this modification would have a material impact on BSC Objective B "The efficient, economic and co-ordinated operation of the GB transmission system".</p> <p>Notwithstanding the uncertainty that a lack of analytical evidence makes to the quality of any conclusions drawn, we would look at the implications this modification could have for promoting effective market competition.</p> <p>This alternative seeks to improve upon the accuracy of the original in that it attempts to derive an unconstrained stack more reflective of the activity available to the System Operator in real time. However in order to assess either of these options against the applicable objectives it necessary to understand if either</p>
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		<p>introduce a more predictable price and a price that is able to respond to the relative level of energy scarcity in the market in any particular period. If a price is predictable but does not respond to market conditions then the ability of the imbalance price to appropriately inform the contracting strategy in the forward market is uncertain and the effect on market competition detrimental.</p> <p>Assuming that the P211 alternative produces a more predictable price does this improve competition? It would probably make the contracting, or non contracting, strategies of some market participants personally more economically beneficial. Also as much as the imbalance price can act as a factor in determining market entry then a more predictable price would provide more forward certainty. This greater clarity to manage the cost of imbalance risk could be beneficial for competition.</p> <p>However if it does not provide the appropriate signal to balance the incentive for the market to move in tandem with physical market scarcity is diminished. A more predictable imbalance price simply moves the cost exposure of system imbalance from those parties that were in imbalance to the wider market community. We are unclear if this will be a significant issue but it remains a risk to be assessed.</p> <p>On balance, without the benefit of any analysis to test the materiality of any concerns and assumptions, we are of the opinion that there may be some improvement of the facilitation of BSC objective C "Promoting effective competition in the generation and supply of electricity, and (so far as consistent therewith) promoting such competition in the sale and purchase of electricity"</p>
3	Please outline the impact of the Alternative Modification on the computer systems and processes of the Transmission Company, including details of any changes to such systems and processes that would be required as a result of the implementation of the Proposed Modification.	<p>After consultation with Elexon and LogicaCMG, it is our understanding that there is no requirement to provide any new information or alter the format or communications in relation to the existing information that is currently provided by National Grid to the BMRS or SAA.</p> <p>Therefore the impact on National Grid will be in relation to the changes required to accommodate changes to the IO14 data flows that we receive on a daily resolution. This information is utilised in a number of systems that drive our business processes such as billing & settlements and these systems will require changes.</p>
4	Please outline any potential issues relating to the security of supply arising from the Alternative	We are not aware of any first order implications for short term security of supply as a consequence of this modification alternative.

	Modification.	
5	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Alternative Modification.	Our initial assessment is that managing the change to the IO14 flow in terms of the implications for our internal systems will take approximately 7 months and will cost approximately £90K
6	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Alternative Modification if the Transmission Company were also to produce the EPUS stack (as defined in section 2.1-2.4 of the P211 Requirement Specification), after the application of EPUS Arbitrage Tagging, required to resolve NIV and provide this to BSC Central systems.	Please see response to question 7
7	Please provide an estimate of the development, capital and operating costs (broken down in reasonable detail) which the Transmission Company anticipates that it would incur in, and as a result of, implementing the Alternative Modification if the Transmission Company were also to The main	We are assuming this is a request to assess the cost and lead time required if the Transmission Company, rather than the BSCco's agents, were to calculate the P211 alternative proposal. Whilst we welcome the initiative to draw some cost comparators to better understand the value of the agent's estimates we regrettably are unable to provide a cost or lead time estimate in the time provided. An assessment of this size would require specialist resources and a functional specification to be established that could then be assessed to provide an indicative cost. As neither of these are available within in the timescales of this request we are not been able to provide estimate.

	Energy Imbalance Price as derived in the P211 Requirement Specification (section 2) and provide this to BSC Central systems (BMRA) such as to enable prompt price reporting in the same (or similar) timescales as present.	
8	Please provide details of any consequential changes to Core Industry Documents and/or the System Operator Transmission Owner Code that would be required as a result of the implementation of the Alternative Modification (and, if applicable, any Alternative Modification).	We are not aware of any consequential changes required to any core industry documents or the STC as a consequence of this modification.
9	Any other comments on the Alternative Modification.	<p>Unfortunately the timing of the raising of this modification, in relation to the ongoing Cash-Out Review, has effectively halted the valuable discussion that the industry would benefit from in relation to what the imbalance price should aim to achieve.</p> <p>In that a number of the desired objectives of the review tend to conflict, an overarching discussion body, unconstrained by very the precise and somewhat limited terms of reference of a single modification, would help to build industry consensus as to which trade offs it would be most appropriate to make in best improving the current baseline. Such trade offs would need to include the marginal versus average pricing discussion, the way in which BSAD data was incorporated and the issue of how to manage instructions that, due to the need to honour generators minimum dynamics, can straddle a number of settlement periods beyond where they have value. Conclusions on these issues would enable the construction of an imbalance price methodology that pragmatically enables the introduction of the most appropriate price signal for the market.</p> <p>In this regard the BSC is but one element of the rules that govern the make up of the imbalance price mechanism. The other factor is the treatment of non Balancing Mechanism (BM) balancing activity that is introduced into the price via the BSAD methodology. If either proposal is implemented we would seek to review this methodology to ensure that the manner in which these variables were incorporated in the price formula met</p>

		the established aims of an imbalance price methodology. Any proposed changes to the BSAD methodology would of course be subject to a separate consultation by National Grid as per our license obligation.
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Please send your response by **17:00** on **8 August 2007** to modifications@elexon.co.uk. Any queries regarding the analysis should be addressed to Chris Stewart on 0207 380 4309 or email address chris.stewart@elexon.co.uk.