

**Responses from P211 Report Phase Consultation**

**Consultation Issued on 18 September 2007**

**Representations were received from the following parties**

No	Company	File number	No BSC Parties Represented	No Non-Parties Represented
1.	Uskmouth Power Limited	P211_dMR_01	1	0
2.	E.ON UK plc	P211_dMR_02	7	0
3.	RWE npower	P211_dMR_03	11	0
4.	SmartestEnergy	P211_dMR_04	0	1
5.	SAIC (on behalf of Scottish Power)	P211_dMR_05	7	0
6.	Teesside Power Limited	P211_dMR_06	2	0
7.	EDF Energy Plc	P211_dMR_07	9	0
8.	British Energy	P211_dMR_08	5	0
9.	E.ON UK Energy Services Metering	P211_dMR_09	0	1
10.	National Grid	P211_dMR_10	1	0

## P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

<b>Respondent:</b>	Rebecca Williams
<b>Company Name:</b>	Uskmouth Power Limited
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	Uskmouth Power
<b>No. of Non BSC Parties Represented</b>	None
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	Generator
<b>Does this response contain confidential information?</b>	No

Q	Question	Response <sup>1</sup>	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Yes	The principle of the proposal itself is flawed, through removing the link of the costs of the balancing actions undertaken by the SO from the main imbalance price calculation. The aim of the imbalance prices is to reflect the energy cost of being out of balance. These costs relate to the energy cost the SO has incurred for correcting your imbalance position. Imbalance prices should therefore reflect costs, be charged on a polluter pays basis and be transparent.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes	As a consequence of changes to the BSC Central Systems and testing requirements, Uskmouth agree with the Panel's recommendation concerning the Implementation Date for P211.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	The modification group have highlighted the relevant sections of the BSC that require additional text and the removal of certain processes, to deliver the solution agreed by the Group.

## P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE

Q	Question	Response <sup>1</sup>	Rationale
4.	Are there any further comments on P211 that you wish to make?	No	

Please send your responses by **12:00 noon on 2 October 2007** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P211 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

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<b>Respondent:</b>	Paul Jones
<b>Company Name:</b>	E.ON UK plc
<b>No. of BSC Parties Represented</b>	7
<b>Parties Represented</b>	Citigen London Ltd, E.ON UK plc, Economy Power, Enfield Energy Centre Ltd, Powergen Retail Ltd, TXU Europe (AHGD) Ltd, TXU Europe (AHST) Ltd
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	-
<b>Role of Respondent</b>	Supplier, Generator, Trader, Consolidator, Exemptable Generator
<b>Does this response contain confidential information?</b>	No

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Yes	Please see our response to the Assessment Consultation and the attached paper to it.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P211 that you wish to make?	No	

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<b>Respondent:</b>	<b>Richard Jones</b>
<b>Company Name:</b>	<b>RWE Npower</b>
<b>No. of BSC Parties Represented</b>	<b>11</b>
<b>Parties Represented</b>	<i>Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant).</i> <b>RWE Trading GmbH, RWE Npower plc, Great Yarmouth Power Ltd, Npower Cogen Trading Ltd, Npower Commercial Gas Ltd, Npower Direct Ltd, Npower Ltd, Npower Northern Ltd, Npower Northern Supply Ltd, Npower Yorkshire Ltd, Npower Yorkshire Supply Ltd</b>
<b>No. of Non BSC Parties Represented</b>	<b>None</b>
<b>Non Parties represented</b>	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	<i>(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributors / other – please state <sup>1</sup>)</i> <b>Supplier/Generator/ Trader / Consolidator / Exemptable Generator / Party Agent</b>
<b>Does this response contain confidential information?</b>	<b>No</b>

<b>Q</b>	<b>Question</b>	<b>Response <sup>1</sup></b>	<b>Rationale</b>
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Yes	We support the conclusions of the BSC Panel, that under P211 cash out prices would no longer reflect the costs of balancing the system by the System Operator resulting in weaker incentives to balance and increased costs for the SO to balance on behalf of Parties., and that the costs of being out of balance would no longer be targeted on those that cause them.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes	

<sup>1</sup> Delete as appropriate – please do not use strikeout, this is to make it easier to analyse the responses

## P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE

Q	Question	Response <sup>1</sup>	Rationale
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P211 that you wish to make?	No	

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## P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE QUESTIONS

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<b>Respondent:</b>	<i>Colin Prestwich</i>
<b>Company Name:</b>	<i>SmartestEnergy</i>
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	<i>SmartestEnergy</i>
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	<i>Supplier/ Trader / Consolidator</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response <sup>1</sup>	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Yes	<p>We agree with the Panel that the case for change has not been proven. From our perspective, we have a set of arrangements which contains certain "features" but many issues have been ironed out over time with various modifications. Any new arrangements would just present a new set of features which would probably then need tinkering with.</p> <p>We are of the view that the proposal puts energy related issues into BSUoS to an extent greater than the current arrangements overly influence energy prices with system actions; it is thought by NGT that the nature of the current "pollution" is between 0 and 7% (for the month of November 2006.) The proposal reduces SBP by 16% annually, and by 12% for the month of November.</p>

# P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE

Q	Question	Response <sup>1</sup>	Rationale
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P211 that you wish to make?	No	

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<b>Respondent:</b>	Man Kwong Liu
<b>Company Name:</b>	
<b>No. of BSC Parties Represented</b>	7
<b>Parties Represented</b>	Please list all BSC Party names of Parties responding on behalf of (including the respondent company if relevant). ScottishPower Energy Management Ltd, ScottishPower Generation Ltd, ScottishPower Energy Retail Ltd, SP Transmission Ltd, SP Manweb plc, SP Distribution Ltd, CRE Energy Limited
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	Please list all non Parties responding on behalf of (including the respondent company if relevant).
<b>Role of Respondent</b>	(Supplier/Generator/ Trader / Consolidator / Exemptable Generator / BSC Agent / Party Agent / Distributor / other – please state <sup>1</sup> ) Supplier/Generator/ Trader / Consolidator / Exemptable Generator /distributors
<b>Does this response contain confidential information?</b>	No

Q	Question	Response <sup>1</sup>	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Yes	ScottishPower agree with the recommendation that P211 should not be made and agree with the views that:- <ul style="list-style-type: none"> <li>this modification will be less cost reflective and with less incentive to balance which could give rise to greater SO actions and costs. Also, as the Mod Group has suggested, the reduced penalty on imbalance potentially could mean less concern with ensuring plant reliability which could give rise to potential supply security issue. These would be detrimental to Objective (b).</li> </ul>

<sup>1</sup> Delete as appropriate – please do not use strikeout, this is to make it easier to analyse the responses

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Q	Question	Response <sup>1</sup>	Rationale
			<ul style="list-style-type: none"> <li>With its less cost reflectivity, this modification gives rise to cross subsidies with imbalanced parties not paying the appropriate costs due to their imbalances. Furthermore, while the modification attempts to eliminate 'pollution' from constraints, it creates an environment for potential price manipulation (within the rules) and resulting in other potential price distortions. We are also concerned that for a low materiality defect, the industry could change the arrangement so fundamentally that could undermine a lot of investments by existing participants. Such situation gives uncertain signal to the market. These factors do not promote Objective (c).</li> <li>On Objective (d), there is no proven case for change and no evidence that the new arrangement would be more efficient to administrate and operate.</li> </ul>
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes	Notwithstanding the fact that ScottishPower do not believe this modification should be implemented, but if it were, in view of its impact to the central systems, SO and parties, we agree that the provisional implementation date is reasonable.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	ScottishPower agree that the legal text appears appropriate.
4.	Are there any further comments on P211 that you wish to make?	Yes	ScottishPower find that the pursuance of this modification and indeed P212 significantly diverged from previous Authority views on pricing modifications (P194 and P205). While we believe P194 did not better the applicable BSC objectives due to its penal nature, this modification appears to go to the other extreme at the expense of incentive to balance and cost reflectivity. Existing participants have already made significant investment to ensure good balancing operation. Such change in principles and arrangement could undermine their position, creating significant uncertainty in the industry and detrimental to competition.

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<b>Respondent:</b>	Keith Miller
<b>Company Name:</b>	Teesside Power Limited
<b>No. of BSC Parties Represented</b>	2
<b>Parties Represented</b>	<i>Teesside Power Limited, Teesside Energy Trading Limited</i>
<b>No. of Non BSC Parties Represented</b>	none
<b>Non Parties represented</b>	<i>Please list all non Parties responding on behalf of (including the respondent company if relevant).</i>
<b>Role of Respondent</b>	<i>Generator</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

<b>Q</b>	<b>Question</b>	<b>Response <sup>1</sup></b>	<b>Rationale</b>
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	No	We do not agree with the conclusion that the modification would result in less cost reflective prices.
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	

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4.	Are there any further comments on P211 that you wish to make?	No	
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<b>Respondent:</b>	David Lewis
<b>Company Name:</b>	EDF Energy Plc
<b>No. of BSC Parties Represented</b>	9
<b>Parties Represented</b>	EDF Energy Networks (EPN) plc; EDF Energy Networks (LPN) plc; EDF Energy Networks (SPN) plc; EDF Energy (Sutton Bridge Power); EDF Energy (Cottam Power) Ltd; EDF Energy (West Burton Power) Ltd; EDF Energy plc; EDF Energy Customers Plc; Seeboard Energy Limited
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	N/A
<b>Role of Respondent</b>	Supplier/Generator/Trader/Distributor
<b>Does this response contain confidential information?</b>	No

Q	Question	Response <sup>1</sup>	Rationale
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	<p>Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.</p>	<p>No</p>	<p>The proposed P211 solution provides a more cost reflective main imbalance price than the current baseline and should be recommended for approval by the BSC Panel. We agree with the views put forward by those Panel members who supported a recommendation that the proposal should be approved, and would like to make some points to refute some of the arguments used by those members that opposed the modification in their provisional recommendation to the Authority:</p> <ul style="list-style-type: none"> <li>• <i>"National Grid's analysis presented to the cash-out review indicated that Energy Imbalance Prices are impacted by the defect in the range of approximately 0 – 7%" (DMR p.14, s.5.1.1)</i></li> </ul> <p>This statement is incorrect. The P211 defect includes all energy plus actions and therefore the defect (for the period April 06 to Feb 07) impacted a short market in 75% of periods and a long market in 59% of periods analysed. There is not even a reference to the figures 0 – 7% in the presentation. We also note that National Grid's "idealised stack" analysis looked at prices for <b>one month</b> in November 2006 – By comparison, Elexon's pricing analysis looked at 12 month's worth of data (utilising a similar approach to NG), and showed that SBP would have been 16% lower and SSP 7% higher. The analysis for the P211 Alternative (utilising dynamics) showed a 13.5% decrease and 4% increase respectively. These figures undoubtedly provide a much truer reflection of the magnitude of the defect and the impact on imbalance prices. The fact that the P211 prices are lower suggests that "energy plus" actions are artificially increasing current imbalance prices to the detriment of the market.</p> <ul style="list-style-type: none"> <li>• <i>"One member noted that there could be a potential for inconsistency with direction from the Authority with regards to recent pricing related modifications and cost reflectivity. P194... led to higher Energy Imbalance Prices was approved by the Authority, whilst P211 has been</i></li> </ul>
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			<p><i>shown to lead to more benign Energy Imbalance Prices” (DMR p.15, s.5.1.4)</i></p> <p>There is no inconsistency whatsoever with previous recent Authority decisions on cash out and this modification. There is however a clear misunderstanding that “price derivation” (the volume of actions in NIV to <u>derive</u> a price from) and “price inputs” (the actions that <u>constitute</u> NIV) are the same issues, which is clearly not right. The fact that P211 would reduce prices is irrelevant if those prices are more cost reflective of energy imbalance.</p> <ul style="list-style-type: none"> <li>• <i>“A case had not been made for change” (DMR, p.16, s.5.1.5)</i></li> </ul> <p>We find this statement confusing. Firstly, there is a vast amount of analysis publicly available showing that the defect has been shown to be a significant issue, and therefore a definite need for change. The launching of the latest cash out review by Ofgem also identified the issue of imbalance price pollution as one of its key target areas for change.</p> <p>Secondly, we are not convinced that “a case has not been made for change” is the correct test to apply by the Panel. Section F.2.6.2 of the BSC states that the purpose of the Assessment Procedure is to evaluate whether the proposal (or any alternative):</p> <p><i>“better facilitates achievement of the Applicable BSC Objective(s) in relation to the issue or defect identified in the Modification Proposal”</i></p> <p>The Panel recognised that there was a clear defect in the current arrangements. In our view, it should then have considered whether the proposal better achieved BSC Objective (d) not whether a case was made to change.</p>
			In our view a case has clearly been made for a change in relation to the



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			<p>defect identified and this should not have had to be re-stated. In any event if the BSC Panel was not certain about the impact of the defect then it should have sought clarification earlier.</p> <p>It is therefore our view that the Panel should be comparing the P211 proposed modification to the defect produced by the baseline text in the code.</p>
	<p>Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211?</p> <p>Please give rationale.</p>	Yes	
	<p>Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group?</p> <p>Please give rationale.</p>	Yes	
	<p>Are there any further comments on P211 that you wish to make?</p>	Yes	<p>We have identified some further information in the P194 Impact Assessment from January 2006 which may be helpful to the Panel. In section 4.51, NGET provided further analysis on tagging looking at the period 1<sup>st</sup> April 2005 – 14<sup>th</sup> November 2005. Of the 10,946 periods considered, <b>system constraints were present in 28% of them</b> (i.e. 3,104 periods). The system as a whole has if anything become more constrained since this time so it is possible that these figures may now be higher.</p>

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<b>Respondent:</b>	<i>Martin Mate</i>
<b>Company Name:</b>	British Energy
<b>No. of BSC Parties Represented</b>	5
<b>Parties Represented</b>	<i>British Energy Power &amp; Energy Trading Ltd, British Energy Generation Ltd, British Energy Direct Ltd, Eggborough Power Ltd, British Energy Generation (UK) Ltd</i>
<b>No. of Non BSC Parties Represented</b>	-
<b>Non Parties represented</b>	-.
<b>Role of Respondent</b>	<i>Supplier/Generator/Trader/Consolidator/Exemptable Generator/Party Agent</i>
<b>Does this response contain confidential information?</b>	<i>No</i>

Q	Question	Response	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Yes	Our response to assessment consultation gave detailed reasons why P211 would not better meet BSC Objectives. In summary: (1) An energy price which ignores the real and unavoidable requirement to satisfy plant physical and dynamic constraints would not be reflective of the true cost of providing balancing energy at short notice. (2) The proposed arrangement would base prices on actions which would often not be feasible in reality and it would therefore (a) systematically under-estimate true balancing costs and (b) be susceptible to distortion by submitted plant parameters. (3) The proposed arrangements would ignore the unavoidable requirement to hold upward and downward reserve and to take actions in opposing directions because of physical and dynamic constraints and uncertainty

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			<p>over future imbalance requirements. We do not consider that parties in imbalance should be isolated from the costs of such actions taken mainly on their behalf.</p> <p>(4) Analysis has compared existing arrangements based on actual actions taken by the System Operator with an idealised schedule ignoring virtually all constraints on balancing actions. It is misleading to suggest all the difference is due to so-called 'system actions'.</p> <p>(5) Analysis to identify differences between existing and proposed arrangements due to transmission constraints alone is notoriously difficult and has not been undertaken. We believe most of the difference reported by National Grid at the 30 March 2007 Ofgem cashout review meeting and by the modification group is due to factors other than transmission constraints. However, insufficient information is currently available to confirm or disprove this.</p> <p>We accept the desirability of removing the effects of transmission constraints from imbalance prices. However an 'unconstrained schedule' which eliminates the effect of transmission constraints (which we would support in principle, but believe very difficult in practice) is very different from one ignoring all physical and dynamic constraints existing in reality.</p>
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes / No	We believe 8 months notice of implementation would be a very challenging timescale for BSC agents and industry parties.
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes / No	We have not reviewed the legal text.
4.	Are there any further comments on P211 that you wish to make?	Yes / No	It has been suggested that the proposed cashout methodology is simpler and more transparent than the existing methodology. We consider that although some of the detail of the existing methodology may appear complex, the principle is very simple: that main imbalance price is derived from the price of

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Q	Question	Response	Rationale
			actions which the System Operator actually used. We assume the System Operator has sophisticated tools to optimise the costs of balancing, taking into consideration all the physical, dynamic and transmission constraints which exist in reality. We do not consider a very simple unconstrained schedule as proposed would better reflect the true cost of actions required to balance the system. The difference between the actions it assumes and reality represents a significant complexity with little obvious benefit.

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<b>Respondent:</b>	<i>Name Alastair Barnsley</i>
<b>Company Name:</b>	E.ON UK Energy Services Metering
<b>No. of BSC Parties Represented</b>	0
<b>Parties Represented</b>	
<b>No. of Non BSC Parties Represented</b>	1
<b>Non Parties represented</b>	E.ON UK Energy Services Metering
<b>Role of Respondent</b>	<i>Party Agent</i>
<b>Does this response contain confidential information?</b>	

Q	Question	Response <sup>1</sup>	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Neutral	This proposal will have no direct impact on our systems & processes
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Neutral	This proposal will have no direct impact on our systems & processes
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Neutral	This proposal will have no direct impact on our systems & processes

## P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE

Q	Question	Response <sup>1</sup>	Rationale
4.	Are there any further comments on P211 that you wish to make?	No	

Please send your responses by **12:00 noon on 2 October 2007** to [modification.consultations@elexon.co.uk](mailto:modification.consultations@elexon.co.uk) and please entitle your email '**P211 Report Phase Consultation**'. Please note that any responses received after the deadline may not receive due consideration by the Panel.

Any queries on the content of the consultation pro-forma should be addressed to Chris Stewart on 020 7380 4309, email address [chris.stewart@elexon.co.uk](mailto:chris.stewart@elexon.co.uk).

## P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE QUESTIONS

BSC Parties ("Parties") and other interested parties are invited to respond to this consultation expressing their views or provide any further evidence on any of the matters contained within this document. In particular views are sought in respect of the following questions. Parties are invited to supply the rationale for their responses.

<b>Respondent:</b>	Rob Smith
<b>Company Name:</b>	National Grid
<b>No. of BSC Parties Represented</b>	1
<b>Parties Represented</b>	National Grid
<b>No. of Non BSC Parties Represented</b>	0
<b>Non Parties represented</b>	
<b>Role of Respondent</b>	Transmission System Operator
<b>Does this response contain confidential information?</b>	No

Q	Question	Response <sup>1</sup>	Rationale
1.	Do you agree with the Panel's provisional recommendation to the Authority contained in the draft Modification Report that Proposed Modification P211 <b>should not</b> be made? Please give rationale.	Yes	<p>We appreciate that the creation of an accurate imbalance price based on an EPUS is a difficult methodology to achieve. The development of rules to reflect such circumstances must balance the desire for simplicity with that of accuracy and will always introduce a level of approximation.</p> <p>In principle, an imbalance price methodology based on an unconstrained schedule may represent a pragmatic way forward that captures the majority of targeted System Operator activity and removes those actions considered to be inappropriately influencing that price signal.</p> <p>In practise however, we believe this particular proposal, in disregarding plant dynamics to determine the accessibility of MWs, leans too far towards simplicity with the consequence that it compromises the accuracy and appropriateness of the price. It allows plant that is not accessible to the system operator to be included in the unconstrained stack. It is difficult to understand how these volumes can be considered truly reflective of the cost of resolving energy imbalance if they would not be available to the System Operator to perform that very task in reality.</p> <p>Our concern is compounded by the fact that these volumes may be priced at a significant discount to the market</p>

# P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE

Q	Question	Response <sup>1</sup>	Rationale
			<p>value of energy at that time. This may be an intentional activity aimed at influencing the price for commercial benefit but may also reflect a legitimate pricing strategy on the part of the provider in relation to the, relatively unattractive, long notice unit commitment taken on by the System Operator in those circumstances.</p> <p>In essence, however, the reason for the pricing is secondary to the fact that it is activity that could not be accessed by the system operator even if the SO's only driver was to resolve energy imbalance. As such it is difficult to understand why volume should be included in a price attempting to reflect the cost to the System Operator of energy balancing.</p> <p>As such although we believe this is a methodology ,that in some other form, may yield a way forward, we agree with the recommendation made by the panel that modification P211 should not be made</p>
2.	Do you agree with the Panel's provisional recommendation concerning the Implementation Date for P211? Please give rationale.	Yes	
3.	Do you agree with the Panel's view that the legal text provided in the draft Modification Report delivers the solution agreed by the Modification Group? Please give rationale.	Yes	
4.	Are there any further comments on P211 that you wish to make?	Yes	<p>At the September BSC Panel meeting a query was raised regarding the potential impact of this modification on the balancing costs incurred by the system operator. We anticipate that more detail in this area may be considered by Ofgem as part of any Regulatory Impact Assessment (Ofgem has indicated that it currently expects to undertake and RIA for P211 and P212). In the interim, we would add the following initial illustration of the possible impacts on SO costs. Please note that the considerations below do not take any account of the potential cost effects caused by the inclusion of Bids and/or Offers inaccessible to the SO within the price stack, as</p>



# P211 MAIN IMBALANCE PRICE BASED ON AN EX-POST UNCONSTRAINED SCHEDULE

Q	Question	Response <sup>1</sup>	Rationale
			<p>described in our answer to 1, above:</p> <ul style="list-style-type: none"> <li>- We expect any impact on SO costs to be driven primarily by a change in NIV that might result from the possible implementation of P211. It is not clear to us, or from the conclusion of the modification group, how NIV would change as a result of the possible implementation of this modification. Therefore we present both scenarios below.</li> <li>- If the modification was implemented and, as a result, NIV tended to be less long than at present then we would expect the implementation of the modification to lead to an increase in BSUoS costs, due to: <ul style="list-style-type: none"> <li>o A reduction in Bid receipts as a less long average NIV would mean the SO accepting less Bids on average.</li> <li>o An increase in Reserve costs, as a result of the reduction in NIV length available to the SO to use a reserve.</li> </ul> </li> <li>- If the modification was implemented and, as a result, NIV tended to be longer than at present then we would expect the implementation of the modification to lead to a decrease in BSUoS costs due to: <ul style="list-style-type: none"> <li>o An increase in Bid receipts as a longer average NIV would mean the SO accepting more Bids on average.</li> <li>o A reduction in Reserve costs, as a result of the increase in NIV length available to the SO to use as reserve.</li> </ul> </li> <li>- The impact on incentivised Balancing costs would be lower, due to the correction of the cost of NIV in incentivised costs by the Net Imbalance Adjustment.</li> <li>- Note that the costs in the illustration above would only represent the net changes in SO costs, and not the change in total costs to the industry. For example, we would expect a reduction in SO costs under a longer NIV scenario to be possibly more than offset by increased costs to the industry in procuring the contract position that resulted in the additional market length.</li> </ul>
5.			

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