

The background of the slide is a photograph of a wind farm with several wind turbines visible against a cloudy sky. A semi-transparent grid pattern is overlaid on the left side of the image.

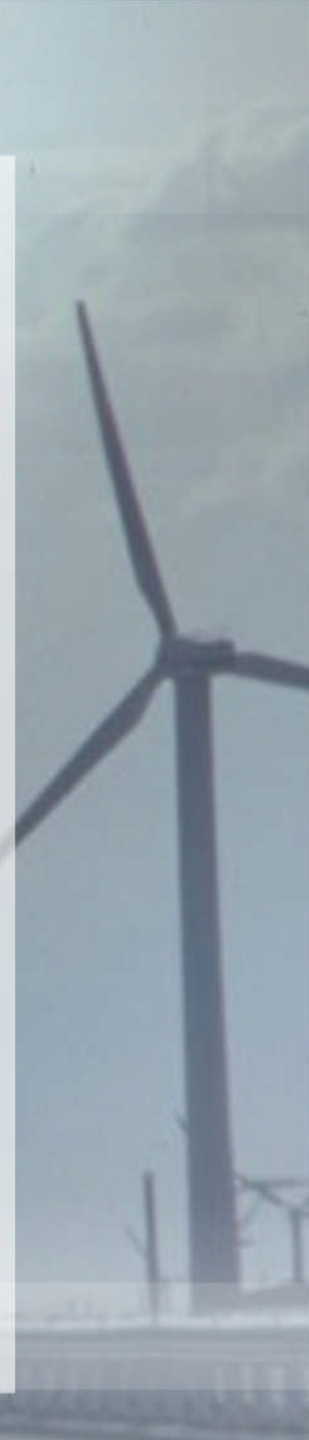
**P205**

**Increase in PAR Value to  
500MWh**

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# Reasoning for P194

- **P194 was raised to move the cost of imbalance from an average cost to a marginal cost.**
- **View held that this will increase the pressure on market participants to balance**
- **Impact on renewable generation not fully considered**



# Will P194 encourage market to balance?

- Data for P194 used 04/05 data.
  - If P194 was active then prices would have been:

£/Mwh	Actual	P194
Avg SBP	£27.9	£29.6
Avg SSP	£18.8	£17.7
Peak SBP	£350	£663
Peak SSP	£1	-£64*

\* Ignoring Damhead Creek incident

# Will P194 encourage market to balance?

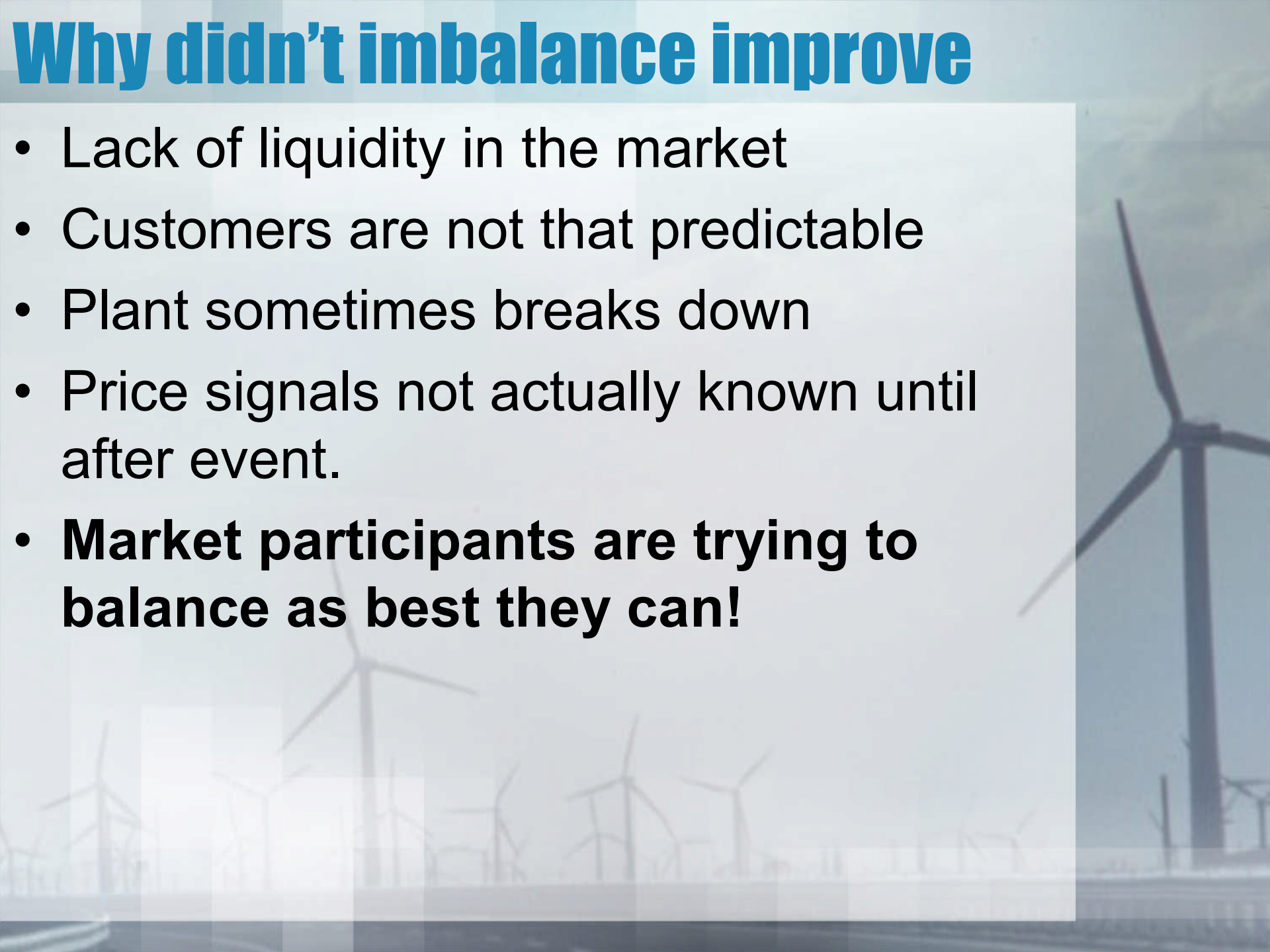
Now compare P194 04/05 with actual 05/06

<b>£/Mwh</b>	<b>04/05 P194</b>	<b>Actual 05/06</b>
<b>Avg SBP</b>	<b>£29.6</b>	<b>£50.3</b>
<b>Avg SSP</b>	<b>£17.7</b>	<b>£34.52</b>
<b>Peak SBP</b>	<b>£663</b>	<b>£602</b>
<b>Peak SSP</b>	<b>-£64</b>	<b>-£21</b>

Q: Did the market react to signals in 05/06 to balance more effectively?

# Why didn't imbalance improve

- Lack of liquidity in the market
- Customers are not that predictable
- Plant sometimes breaks down
- Price signals not actually known until after event.
- **Market participants are trying to balance as best they can!**



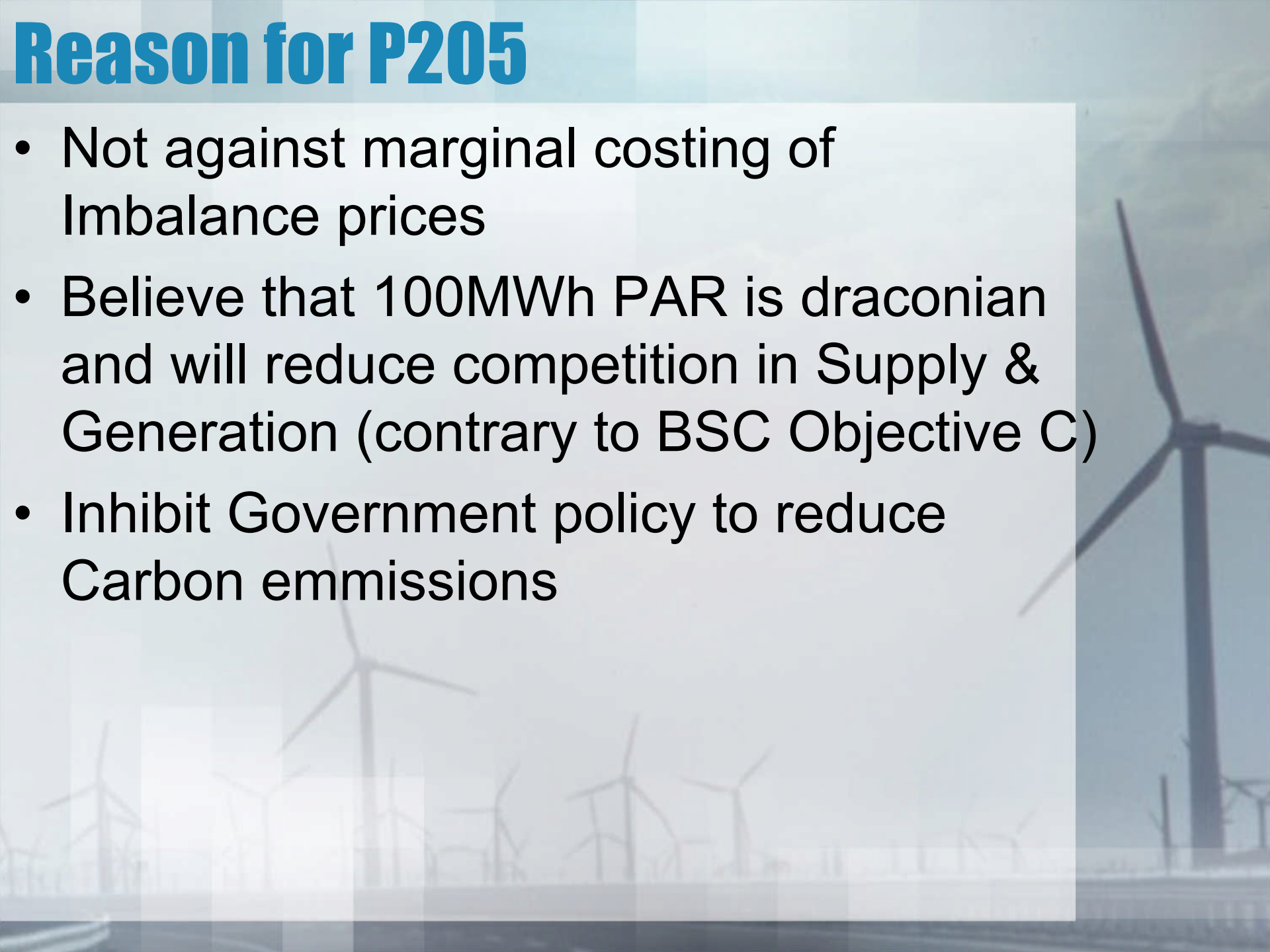
# Impact on Renewables

- Government encouraging renewables
- Most Renewables spill rather than being despatched
- Suppliers offer PPA contracts reflecting impact of this on their balance position
- Reduced SSP including more  $HH < 0$  means lower prices on offer to renewables.
- Less Renewable generation cost effective



# Reason for P205

- Not against marginal costing of Imbalance prices
- Believe that 100MWh PAR is draconian and will reduce competition in Supply & Generation (contrary to BSC Objective C)
- Inhibit Government policy to reduce Carbon emissions

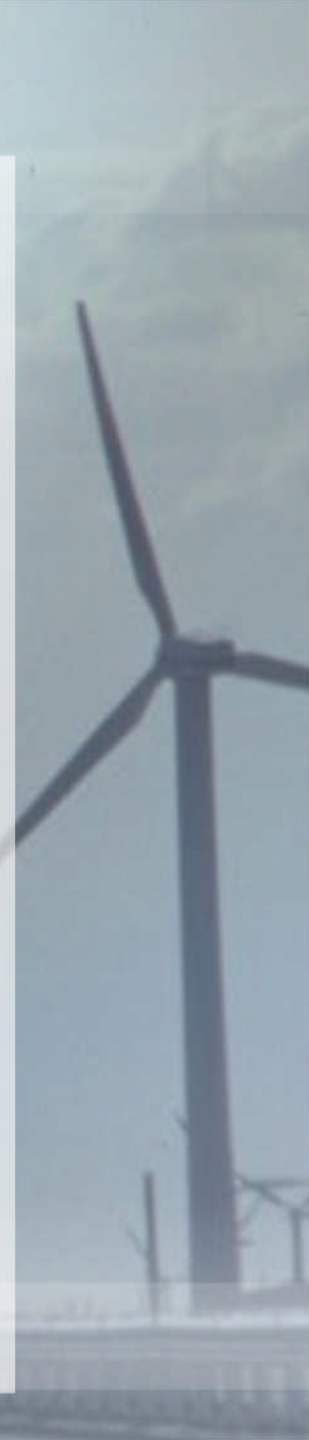




# Why 500 MWh?

- Impact is marginal on Average prices  
In 2005/06 Average SBP would have increased from £50.3 to £50.9, Average SSP reduced from £35.5 to £35.4
- Impact still there at Peak system stresses

Peak SBP would have increased from £602 to £1054, while Peak SSP would have reduced from -£21 to -£50





# Conclusion

- P205 retains principle of marginal pricing at peak times
- Minimises impact on BSC objective C
- Meets Ofgem's requirements to promote Sustainability
- Meets NGC's public statement on Climate Change

