Assessment Consultation Responses: P282 'Allow MVRNs from Production to Consumption or Vice Versa'

Consultation issued on 3 August 2012

What stage is this document in the process?

01 Initial Written Assessment
02 Definition Procedure
03 Assessment Procedure
04 Report Phase

We received responses from the following Parties

Company	No BSC Parties / Non-Parties Represented	Role of Parties/non-Parties represented
Drax Power Limited	1 / 0	Generator
Eggborough Power Limited	1 / 0	Generator
National Grid	1 / 0	Transmission System Operator
Statkraft Markets GmbH	1 / 0	Generator / Trader / Exemptable Generator / Party Agent
SmartestEnergy Limited	1 / 0	Supplier / Consolidator
RWE Supply & Trading GmbH	10 / 0	Supplier / Generator/ Trader / Consolidator / Exemptable Generator / Party Agent
DONG Energy	1 / 0	Generator
E.ON	5 / 0	Supplier / Generator / Trader / Consolidator / Exemptable Generator
IBM (UK) Ltd. (for and on behalf of ScottishPower)	7 / 0	Supplier / Generator / Trader / Consolidator / Exemptible Generator / Distributor
International Power	7 / 2	Generator / Trading Party / Party Agent
Centrica	13 / 0	Generator / Trader / Supplier / BSC Party
EDF Energy	10 / 0	Generator / Supplier / Party Agent / Consolidator / Exemptable Generator / Trader

Question 1: Do you agree with the Workgroup's initial view that P282 better facilitates the Applicable BSC Objectives when compared with the current BSC Rules?

Summary

Yes	No	Neutral/No Comment
6	6	0

Responses

Respondent	Response	Rationale
Drax Power Limited	No	We believe that the relevant BSC Objectives are b (The efficient, economic and co-ordinated operation of the National Transmission System), 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) and d (Promoting efficiency in the implementation of the balancing and settlement arrangements). Overall, we do not believe that P282 better facilitates the applicable BSC Objectives relative to the current arrangements. With regards to Objective d, generators and suppliers should be able to capture imbalance cost savings in the region of £15m to £20m per annum in total. However, this does not represent a significant industry saving in imbalance costs. Moreover, the Workgroup's analysis has shown that the proposed solution will potentially create perverse incentives with regards to individual parties' balancing incentives. This is because the analysis has shown that the biggest 'winners' from the P282 solution tend to be those parties who are relatively poor at balancing their position i.e. have unreliable generation and/or inaccurate demand forecasting. This might then dilute the balancing incentives created by dual cash-out pricing. Moreover, incentives to invest in reliable generation enhancements and more accurate demand forecasting could be weakened. The potential costs associated with these perverse incentives could easily negate the relatively trivial cost savings that have been modelled. Efforts should be made by the Workgroup to quantify the costs associated with potentially distorting BSC Parties' balancing incentives (this could include any analysis provided by National Grid which is further discussed below). Any difficulties in providing quantification should be explained in the

Respondent	Response	Rationale
		report to the BSC Panel. However, the potential for balancing incentives to be skewered leads us to conclude that P282 is slightly negative against Objective d relative to the current arrangements. With regards to Objective c, we believe that the modification will probably only have very limited impact. It seems likely that P282 will only allow those who operate on both sides of the market (generation and supply) to realise material cost savings, particularly those who currently make use of ECVNs to help balance their position. This might potentially further entrench the positions of incumbent utilities. Moreover, it is highly unlikely that 'one sided' parties will be able to take advantage of the potential benefits associated with P282, as the commercial obstacles (rather than the BSC arrangements themselves) to setting up inter-company agreements are too great. This might represent a slight barrier to entry and expansion. Overall, we consider that P282 is neutral/marginally negative against Objective c relative to the current arrangements when taking into account the minor downside risks mentioned above. With regards to Objective b, we are concerned that the perverse balancing incentives created by P282 will increase the costs the SO incurs to manage the transmission network. The principal risk is that the costs associated with managing balancing risks are shifted from one party to another (in this case from generators/suppliers to the SO) regardless of which party is best placed to manage the risk. This could result in increasing the total costs associated with balancing activities. We welcome additional and more detailed information from National Grid to help confirm and potentially quantify the materiality of this effect. However, in the absence of more precise information we see significant downside risks under Objective b and thus believe, at present, that P282 is slightly negative against Objective b relative to the current arrangements.
Eggborough Power Limited	No	On balance we believe that the modification does not better facilitate the relevant objectives, in particular objective (c). Eggborough believes that the modification will potentially damage the competitive position of companies such ours .As a single site, small player we will face greater financial risk from imbalance, and associated cash flows, than our competitors.

Respondent	Response	Rationale
		We believe that smaller players will be worse off under this proposal and the work done by the group appears to support this view. While the potential increases in RCRC exposure seem to have been examined, the change in imbalance (or no change) highlights that single account parties lose as the other parties often gain. For EPL we lose on both RCRC and relative imbalance costs, which are not specifically captured under the analysis, but it is clear that the bigger portfolios typically see reduced costs. The ability to simply "internally" trade is likely to impact wider market liquidity. The BSC applicable objective to promote effective competition cannot be better met with the modification. The Competition effect will also feed into the wider market, at a time when Ofgem is trying to improve liquidity. It would be detrimental to make a change that further facilitates passive sales and purchases rather than market based trading. Like many players on one side of the market, along with developers, it is vital to us that the traded market improves and not worsens. We believe that the modification could have an adverse effect on trading levels and lead to less active monitoring of output, as the production units can allocate all energy imbalances into one account. This may reduce the incentives to control BMUs as accurately, especially if "self balancing" is used. Again with the work Grid is doing with intermittent generators to get additional information and control, this modification would be a move in the wrong direction.
National Grid	No	P282 may reduce the incentive for Parties to go less-long, increasing volatility and uncertainty for the System Operator, requiring the System Operator to hold more reserve and incur additional cost. This is not in support of Applicable BSC Objective (b). As arguments for and against P282 are finely balanced, we are unsure as to the favourable/ unfavourable impact on the other Applicable BSC Objectives.
Statkraft Markets GmbH	Yes	As the proposer of P282 Statkraft believes the change proposal significantly improves on the current BSC baseline. Objectives (b)-(d) are relevant. We believe the proposal should have benefits in respect of objective (b) (the efficient, economic and coordinated operation of the transmission system).

Respondent	Response	Rationale
		We agree with the view that enabling Parties in effect to nominate a net position or to pool opposite imbalances should facilitate the more efficient operation of the transmission system, placing downward pressure on both balancing costs and imbalance charges. Because the change is optional, it is difficult to predict the timeframes of this reaction and therefore the impact on system operations, but the benefits would be real. At the same time there would be no loss of transparency for the system operator as transfers across accounts and between Parties would be transparent and Parties would still need to post FPNs against individual BMUs. The proposal is also consistent with the concept of the residual balancer, responsible for actions that the market on its own cannot take and incentivised to manage these efficiently, so we can see disbenefit. The key benefits are in relation to the competition objective (c) (promoting effective competition in the generation and supply of electricity). We believe that the proposal will provide more options for existing parties, particularly smaller ones that use both production and consumption accounts, and it should enable parties to better balance their positions. P282 would also reduce the level of complexity and the cost of compliance with the BSC and so remove a barrier to market entry. We also believe that the proposal would better facilitate objective (d) (promoting efficiency in the implementation of the balancing and settlement arrangements). The proposal creates greater efficiency in the arrangements by removing an unnecessary restriction and will simplify the arrangements for Parties who take advantage of it. A particular benefit is that Parties would only need to submit a single evergreen 100% MVRN and a net contract notification instead of multiple Energy Contract Volume Notifications to achieve the same effect. We consider the proposal will also facilitate objective (e) (compliance with European Regulations and any relevant legally binding decision of the European Commission and/ or the Agency). This proposal would move arrangements in GB closer to those typically found in other countries, which seem to be based

Respondent	Response	Rationale
		around integrated scheduling entities. It should therefore facilitate the overall goal of the creation of a single European market and market coupling.
SmartestEnergy Limited	Yes	We agree that this proposal will reduce a barrier to entry. As a company which has built up on one-side of the market (consumption account) we would not have to start from scratch building up a portfolio on the other side of the market to gain balancing efficiencies as we would under current arrangements. Therefore competition could increase (objective c).
RWE Supply & Trading GmbH	No	While we note that P282 may reduce the overall costs of balancing, we are concerned about the competitive effects of the proposal, the impact liquidity and the potential increase in costs for parties that trade on single accounts. Consequently we do not believe that the proposal will better meet Objective C.
DONG Energy	No	We do not believe P282 better facilitates 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), as it will disadvantage parties who are only active on one side of the market with minor benefits to the rest of the market.
E.ON	Yes	Yes, P/C accounts do not appear to serve any useful purpose, only forming an administrative burden giving unjustified complexity and cost to the industry and ultimately the consumer. We agree with the arguments from the Proposer and Workgroup that P282 would support the Applicable BSC Objectives b, c, d, and e. P282 would support BSC Objectives, (b) by better enabling self-balancing, (c) and (d) by allowing parties to better manage the existing arrangements should they wish to take advantage of the capability P282 would introduce. Moving closer to common European market arrangements supports (e).
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	ScottishPower believe that the Modification will better achieve the BSC Objectives Objective a) No Impact. Objective b) The ability to consolidate all flows into one account will allow Parties the opportunity to continue managing their imbalance position much closer to gate closure than is possible today. The current, implicit, contract notification cut-off point means that Parties are unnecessarily exposed to imbalance that they may well be able to deal with,

Respondent	Response	Rationale
		under these new arrangements. This self-balancing will help the SO to manage the system more efficiently, leading to a reduction in the amount of balancing actions required. We believe that Party self-balancing will lead to a more efficient system operation. Objective c) Minor positive impact. Self-balancing Parties will be able to compete more effectively. Objective d) Slight negative impact, as there are central system changes required. Objective e) No Impact.
International Power	Yes	We agree with the workgroup's view that the arguments are finely balanced so the answer to this question is only a marginal 'Yes'. The proposal is likely to allow participants to improve their balance position before gate closure and so improve the efficient operation of the System by the System Operator (objective b), although there is still a possibility that more last-minute changes in PNs could increase the SO's uncertainty. The proposal would benefit parties that have significant positions on both the production and consumption sides of the market (both financially and in simplicity of operation), but disbenefit those who are only on one side – thus only some parties may be put in a more competitive position - it therefore cannot be said to have a positive effect on objective c. Since the proposal would simplify participants' processes and give greater flexibility it will have a positive effect on the promotion of efficiency (objective d).
Centrica	No	We believe that the relevant objective is primarily objective c), promoting effective competition in the generation and supply of electricity. We also believe P282 has some relevance to objective d), promoting efficiency in the implementation of the balancing and settlement arrangements. On objective c), we **do not** believe that P282 will facilitate effective competition in electricity generation and supply. All parties will incur system and process costs in order to benefit from P282. Elexon will also incur implementation costs, as noted in the Workgroup's consultation materials. If objective c) is to be furthered, we believe that an overall enduring

Respondent	Response	Rationale
		benefit to BSC parties, which at least outweighs P282's implementation cost, needs to be demonstrable. We do not believe P282 offers such a benefit, for two reasons: 1. Any P282 net benefits (typically, where reductions in party imbalance costs outweigh reductions in RCRC receipts) that accrue to "winning" parties will be equally offset by net losses to "losing" parties (reduction in RCRC receipts outweigh reduction in imbalance costs). P282's "benefits" are in practice a zero sum game, but P282's implementation costs are clearly a negative – meaning a net cost to BSC parties overall. We agree with the P282 Workgroup's detailed assessment, which clearly demonstrates that P282 would only redistribute costs among BSC parties, and would not actually reduce them (p4-6 of detailed assessment). We also note the workgroup's observation on winners and losers of P282 (p19 of assessment consultation), which notes that: *"Other things being equal, the net benefit [of P282] is positive for 'bad balancers'.... and negative for 'good balancers.'"* We would question whether a modification proposal which delivers such a result (i.e. P282) can be said to facilitate effective competition in a market where good balancing is eminently desirable and should be encouraged. 2. Even if P282 is considered to have benefits against objective c), e.g. if the current arrangements are deemed harsh on 'bad balancers', we do not believe that P282's implementation costs are worth the risk of its benefits being nullified by Ofgem's Electricity Balancing SCR. We agree with the Workgroup Assessment Consultation's comments in respect of Ofgem's Electricity Balancing SCR: *"P282 will impact areas that could be considered by the proposed Cash-Out SCR. For example, a major benefit from P282 is for a Party to be able to consolidate their Credited Energy Volumes into one Energy Account, but this benefit only arises because there are two cash-out prices. One proposal under the Cash-Out SCR is to introduce a single cash-out price, which would nullify this benefit."*

Respondent	Response	Rationale
		Whilst we recognise that the Electricity Balancing SCR is considering a number of options, it seems prudent to allow the SCR to run its course before deciding on the merits of a proposal that may ultimately prove to be a waste of resources in a post SCR context. Implementation of P282 is likely to entail significant costs, yet may not deliver enduring "benefits" if Ofgem reforms the existing dual cash-out arrangements especially as there is a risk that cash-out reforms could be implemented shortly after the proposed implementation of P282. Finally, we note that P282 may be of some relevance to objective d), as it would likely reduce parties' imbalance charges and would give parties greater discretion about how they managed their imbalances. On the former point, any reduction in imbalance charges would be equally offset by lower RCRC, so this does not in our view amount to any real improvement in efficiency in implementation. On the latter point about greater discretion to BSC parties, we believe this benefit to be very marginal in the context of the objective c) considerations set out above.
EDF Energy	Yes	Overall, we think proposal P282 better meets the BSC Objectives: • We think the proposal will have little impact on BSC Objective (b) concerning efficient system operation. We expand on this in our response to question 4. • BSC Objective (c) concerning competition should be better met, because participants with a diverse portfolio of activities would not be prevented from obtaining the natural consolidation benefit of such a portfolio. Diverse portfolios exist not only among large longstanding companies, but also among relatively new and smaller companies. In the presence of competition, this more cost-reflective approach has potential to deliver lower prices to consumers. • For BSC Objective (d) concerning efficient administration of the BSC, there are modest implementation costs, but no additional ongoing operational costs for BSCCo or parties. A potential benefit is reduced administrative effort by BSCCo and parties in dealing with issues created when imbalances arise because of errors associated with BM Unit P/C status's and contract notifications. Also, trading all volume net on one

Respondent	Response	Rationale
		account is conceptually simpler and more transparent. We think the future benefits under BSC Objective (d) outweigh the implementation cost. • For BSC Objective (e) concerning European Union regulations, we are not aware of any direct requirement for parties to be allowed to trade net on one energy account. However, it is the norm in many markets within the EU, and the proposal would help to promote the harmonisation with other European electricity markets that is more broadly being sought.

Question 2: Do you agree with the Workgroup that there is no Alternative Modification within the scope of P278 which would better facilitate the Applicable BSC Objectives than the Proposer's solution?

Summary

Yes	No	Neutral/No Comment
12	0	0

Responses

Respondent	Response	Rationale
Drax Power Limited	Yes	We are not aware of any other alternative approaches. Potential alternatives discussed by the Workgroup would be more costly relative to the proposed solution and provide no additional benefit. The more radical changes, as set out in the consultation document (such as single energy accounts), will be considered as part of the Electricity Balancing SCR. We consider this is the correct forum to discuss far-reaching reforms. It will allow the industry to consider the balancing arrangements in their entirety, ensuring that unintended consequences are identified and potentially resolved. In contrast, P282 Proposed represents a pragmatic approach to implement the proposer's intention.
Eggborough Power Limited	Yes	The scope is clear and there is not obvious alternative.
National Grid	Yes	The alternative solutions discussed were considered to discriminate or would not be cost-efficient when considered against wider market implications. The proposed solution is cost-effective, and optional to Parties, and as such, we agree that none of the alternative solutions discussed were identified as better than the proposed solution at facilitating the Applicable BSC Objectives.
Statkraft Markets GmbH	Yes	The workgroup has examined both the possibility of moving to a single Energy Account per Party, allowing each BM Unit to choose its P/C status, and the potential alternative option of retaining the current limitation on Parties whose annual production or consumption is above a certain threshold. We agree with their conclusion that the original proposal is the most pragmatic and targetted (and therefore cost-effective) approach to addressing the defect/issue. It is also important that Parties will retain the option

Respondent	Response	Rationale
		of trading out of both Energy Accounts as currently if they wish to. As an optional facility it promotes choice, which is obviously desirable. In terms of timing, the proposal can be implemented relatively quickly (in terms of BSC timescales) relative to other options considered by the modification group, and it would not preclude further change that might emerge from the electricity balancing SCR.
SmartestEnergy Limited	Yes	-
RWE Supply & Trading GmbH	Yes	Overall however, we feel that such a proposal would be better met through consideration of the Consumption / Production account effect within the context of wider market reform, and the SCR that will be looking at such areas.
DONG Energy	Yes	To achieve the purpose of the Proposer's solution, the original proposal is the best. However, we do not support it as the original proposal would have an adverse effect on non-vertically integrated market players.
E.ON	Yes	We note that the possibility of removing the existence of two separate accounts will be considered under the cash-out SCR.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	No realistic Alternative has been presented.
International Power	Yes	The proposed solution is the simplest that effects the original proposal. If this modification is implemented it may make the principle of having two accounts redundant, so an alternative would be to cease having P and C accounts. However this would add significant complexity in the areas of the BSC that would be affected and also to Parties' own systems and processes.
Centrica	Yes	We agree with the workgroup's recommendation. We also agree with the workgroup that options such as excluding large players from P282's relaxation of MVRN rules would create the opposite of a level playing field, and thus work against objective c).
EDF Energy	Yes	Removal of the distinction between production and consumption activities, and the requirement for each party to have separate BSC energy accounts for each, would have similar benefits to the proposal in

Respondent	Response	Rationale
		reducing artificial imbalance exposure, and would further reduce complexity, ongoing process cost and opportunity for error in future. However, it would have wider impacts on established systems and processes and higher implementation cost across industry, and we accept that the additional benefits are difficult to justify at this time.

Question 3: Do you agree with the Workgroup that the draft legal text delivers the intention of P282?

Summary

Yes	No	Neutral/No Comment
11	1	0

Responses

Respondent	Response	Rationale
Drax Power Limited	Yes	We believe it does.
Eggborough Power Limited	Yes	-
National Grid	Yes	-
Statkraft Markets GmbH	Yes	We agree that the draft legal text is fit for purpose.
SmartestEnergy Limited	Yes	-
RWE Supply & Trading GmbH	Yes	-
DONG Energy	Yes	The legal text is appropriate for the intentions of P282, however we do not believe P282 should be approved for the reasons noted above.
E.ON	Yes	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	-
International Power	No	The text looks fine except for Section T 4.5.1 (b) – when a party is MVRNing between its own P and C accounts (as will oftern happen after this modification), the $\sum_a$ QCE_{iaj} appears to include both the P and C accounts of the Lead Party (which is also the Subsidiary Party) in this case. This may mean that 4.5.1 (a) has added the metered volume to the other account, but 4.5.1 (b) fails to remove it from the BM Unit's own account.
Centrica	Yes	-
EDF Energy	Yes	We have not undertaken a formal legal review. From

Respondent	Response	Rationale
		an informal review, the draft legal text appears to deliver the intent of the worked-up proposal.

Question 4: Do you agree with the Workgroup's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment
11	1	0

Responses

Respondent	Response	Rationale
Drax Power Limited	Yes	The implementation dates suggested appear to minimise the cost of implementation. As such we agree with the recommendation of the Workgroup.
Eggborough Power Limited	Yes	If the systems can be delivered by that date.
National Grid	Yes	-
Statkraft Markets GmbH	Yes	These dates are not unsuitable, though we note that this would cover the longest time identified by respondents to the impact assessment (nine months).
SmartestEnergy Limited	Yes	-
RWE Supply & Trading GmbH	Yes	-
DONG Energy	No	We do not support the implementation of P282.
E.ON	Yes	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	Implementation date is, while not as soon as we would like, the quickest that can be achieved taking into account system change lead times.
International Power	Yes	-
Centrica	Yes	We believe the proposed implementation dates are just about feasible. A reasonable lead time from P282 decision to implementation is necessary in order to allow parties to make the required system and process changes so they can take advantage of P282. Parties who are not able to take advantage of P282 from the implementation date would be doubly penalised, owing to a lack of offsetting imbalance benefits and the reduced RCRC reimbursements they would receive if other participants consolidated their

Respondent	Response	Rationale
		volumes in a single P or C account. For the avoidance of doubt, we do not support P282, even though we believe the proposed implementation date is just about feasible.
EDF Energy	Yes	Although parties would not be obligated to use the new functionality, many or most parties would probably wish to, and those that do not could suffer competitive disadvantage. Given that this is a regulatory change and could also have an effect, albeit very small, on market prices, it seems reasonable to give sufficient notice for all or most parties to accommodate it. Implementation on 07 November 2013 or 27 February 2014, in either case with 9 months notice, would give sufficient notice for us and most parties to implement changes to use the proposal if desired.

Question 5: Do you believe P282 will have an impact on Parties' behaviour?

Summary

Yes	No	Neutral/No Comment	Other
9	1	0	2

Responses

Respondent	Response	Rationale
Drax Power Limited	Yes	The analysis of the Modelling exercise has demonstrated that those parties who are relatively poor at balancing stand to gain the most from the proposal. This suggests that parties' behaviour with regards to balancing will alter. We suspect that parties who implement P282 are likely to take less rigorous actions to ensure they balance their position. They are also unlikely to make investments that would allow them to minimise exposure to imbalance costs, i.e. more reliable generation and/or more accurate demand forecasting. The downside associated with this behavioural change is that rather than minimising the costs associated with imbalance, it actually shifts costs elsewhere, be it to other market participants or the SO, regardless of whether these parties are best placed to manage the risk. Moreover, If the SO is required to take additional actions to mitigate costs associated with this behavioural change this could increase total electricity sector costs which would be detrimental to end consumers. As mentioned in answer to question 1, the Workgroup should attempt to quantify the effects associated with potentially distorting balancing incentives, and where this is not possible, explain why it is unable to quantity these effects. Any evidence provided by National Grid (as mentioned in answer to question 1) would be very helpful in gauging the materiality of a potential effect on balancing incentives.
Eggborough Power Limited	Yes	Yes. EPL believes that the parties will not be forced to actively trade to balance their positions, with passive trading occurring instead. That will have a negative impact on wider market liquidity. Further, parties incentives to more actively manage their assets to avoid imbalance costs will be reduced. This will potentially make it more difficult for Grid to efficiently balance the system. Ofgem's SCR on cash-

Respondent	Response	Rationale
		out talks about introducing an information imbalance charge, which would be used to incentivise balancing. The current cash-out rules already incentivises parties like ours to balance, with weaker signals to those with portfolios. This modification would weaken larger parties' incentives still further.
National Grid	Yes	The proposed modification may result in the market providing less of its own reserve and as a result, the number of balancing actions required by NGET could then subsequently increase. Further details are given in the response to Question 7.
Statkraft Markets GmbH	Yes	(A modest one) The key benefit of P282 is that it provides flexibility. It offers additional options for Parties to adapt to opportunities and market conditions in ways that they cannot currently under the existing restriction. The current restriction makes the rules more complex than they need to be and therefore increases the costs of the trading arrangements. There are obvious benefits arising from the change for Parties who currently operate on both sides of the market in terms of reductions in their exposure to imbalance charges and who would no longer have to employ ECVNs to try and achieve the same effect. However, in principle the change, by creating additional flexibility, and also levelling the playing-field relative to the position already enjoyed by embedded generation, would create better conditions for competition more generally. We would therefore expect a range of Parties to make use of this option either on their own account or through allocating volumes to other Parties utilising their opposite trading account. The change is likely to create a closer focus on each Party's net imbalance volume (NIV), aligning incentives with those seen by the system operator. That said, we doubt it is likely to have a material impact on how Parties contract and operationally balance though it may have a small beneficial impact on the NIV.
SmartestEnergy Limited	Yes	(Though not significant) We cannot comment confidently on the behaviour of other parties but we assume that, for the majority, strategy would remain the same and just be facilitated with some operational changes. Therefore we do not

Respondent	Response	Rationale
		anticipate any significant changes to behaviour, just enough to realise the benefits.
RWE Supply & Trading GmbH	Yes	We are concerned that the proposed modification will encourage parties to trade on a single account and that this will have a detrimental impact on overall market liquidity and reduce transparency of production and consumption activities. It is likely to encourage parties to manage positions internally, reducing market traded volumes and thus potentially creating increased barriers to entry.
DONG Energy	Don't Know	We believe it would strengthen the current incentive to self-balance. It is however very difficult to make an assessment of behaviour change in isolation, given other changes in the market and individual companies' strategies.
E.ON	No	But it should reduce costs to industry and the consumer by lessening the burden of the current arrangements. This could possibly increase the capacity for short-term trading, though this depends on parties' capacity to update their consumption positions.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	Yes	We believe that Parties who are able to take advantage of these arrangements will self-balance closer to gate closure. This will lead to a number of consequential impacts - chief amongst these will be a reduction in SO balancing actions and costs. There will be an increase in the number of PN's submitted to the SO in the lead up to Gate Closure, however the submission deadlines for FPNs is not changing, and the SO's ability to cover changes in availability should not be materially compromised. We would not expect to see wild swings in generation position between the current (implicit) deadline and the submission of FPNs, but instead only expect changes to occur in response to a physical event (e.g. plant trip or a change in wind forecast or a demand outage), events for which the SO is currently prepared for.
International Power	Yes	We believe that this impact will only affect behaviour close to gate closure. Parties may be more willing to make last minute (pre-gate closure) self-balancing actions without the risks associated with ECVN submissions. At present many parties prefer to be slightly long - since they will only be using one energy account if this proposal is implemented, there may be less length on the system.

<table>
<tr><th>Respondent</th><th>Response</th><th>Rationale</th></tr>
<tr><td>Centrica</td><td>Yes</td><td>We believe that most parties with the potential to incur offsetting imbalances would end up making use of P282, due to the cost of not doing so via foregone netting opportunities and reduced RCRC reimbursements. The overall net benefit of P282 to BSC parties would still be zero (ignoring the P282 implementation cost), but the distributive consequences of not making use of P to C MVRNs would drive individual participants to consolidate volumes in a single P or C account.</td></tr>
<tr><td>EDF Energy</td><td>-</td><td>We think P282 would have minimal impact on Parties' behaviour. Considering suggested possible impacts:

1. Suggestion that there might be more planned self-balancing in the period immediately prior to gate-closure, resulting in more changes to Physical Notifications at short notice, instead of notified trades between accounts.

a) In the period more than about half an hour in advance of gate closure, participants can currently choose either to trade and notify; to notify volumes between their own accounts, or to revise their planned physical position (and submit revised PNs) in order to balance expected flows. We have not identified any reason why the proposal would change this choice.

b) In the period starting about half-hour in advance of gate closure, trade and notification between accounts is more difficult and carries increased notification risk. Changes to planned physical flows in order to balance might be preferred by those parties with appropriate flexibility. However, this is something we would expect parties with appropriate flexibility to do now if they so choose. We have not identified any reason why the proposal would change this choice.

2. Suggestion that there might be more planned and live self-balancing after gate-closure, resulting in operational changes at short notice.

The incentive for self-balancing following gate-closure using different parts of a portfolio is increased, but this would be in contravention of the Grid Code. If deliberate self-balancing after gate closure is found to be an issue, it could be addressed by direct investigation, or ultimately by</td></tr>
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Respondent	Response	Rationale
		appropriate activation of information imbalance charging. We note that Grid Code requirements for Physical Notifications and other data, and adherence to those data, vary in practice between different types and sizes of BM Unit. Imposition of information imbalance charges could itself increase the number of PN revisions prior to Gate Closure. 3. Suggestion that reduced imbalance risk through consolidation of production and consumption might reduce the net length parties carry into balancing to avoid shortfall exposure at SBP. This is possible, perhaps even likely if some parties currently carry deliberate length into balancing, however we think it would be a small effect, and should be efficient. Most parties face a risk that their best forecasts will be wrong, and shared rather than individual reserve is an efficient way to hedge that risk. There are many ways to procure and charge for shared reserve, including through options and other products in liquid financial markets. Procurement and charging for reserve, including its inclusion in imbalance price, will be considered in Ofgem's Significant Code Review of Electricity Balancing. Provided the costs of centrally procured reserve are efficiently allocated, the balance between participants procuring their own reserve, and National Grid procuring shared reserve, should not be a concern for this proposal. After gate closure (and in some cases before it) there are practical reasons why central call-off of reserve is likely to be more efficient. For example, if each individual site, or BM Unit, had to procure reserve for itself, the total reserve holding would be inefficiently high. Applied to the level of production and consumption accounts, it is reasonable to expect parties to hedge against a combined imbalance rather than individual imbalances. If parties were to save by procuring less positive reserve, for example by procuring less generation than previously, the System Operator might need to procure more. Provided the reserve procured centrally by the system operator does not cost more than the saving to parties currently providing it through long positions, there should be a cost benefit.

Question 6: Do you believe P282 will have an impact on liquidity? Will P282 have any unintended consequences on short-term liquidity?

Summary

Yes	No	Neutral/No Comment	Other
4	6	0	2

Responses

Respondent	Response	Rationale
Drax Power Limited	Don't Know	We believe that the effects of P282 on liquidity are too unclear to allow a considered opinion to be reached. No conclusive evidence has been presented to the Workgroup to substantiate any proposed effects on liquidity. However, if any detrimental (or positive) effects on liquidity can be substantiated then these would have a material impact on the merits of P282.
Eggborough Power Limited	Yes	See our explanation above.
National Grid	No	National Grid is unsure of any significant impacts on liquidity.
Statkraft Markets GmbH	Yes	(We believe it will have a beneficial impact) We do not consider it likely that P282 will have a major impact on liquidity, either positive or negative. Parties will still see strong incentives to contract. It would be wrong to confuse trading (which should not diminish) and contract notifications at Gate Closure (the number of which should reduce as a result of netting). The former impacts on liquidity; the latter does not. Removing the current restriction on volume transfers should improve matters. Parties may feel they have more control over their net position and they might as a result trade more confidently in the short-term forward markets. Furthermore the option of a generator being able to transfer its production to a third party's consumption account (or vice versa) could stimulate trading assuming (as is likely) it was reflected contractually ahead of Gate Closure. However, it is unlikely that this change in isolation will have a major impact on liquidity. The wider developments being pursued by Ofgem and the industry to improve it are overwhelmingly more significant, and the P282 change if implemented

Respondent	Response	Rationale
		would not mitigate the need to push through the necessary changes to boost liquidity.
SmartestEnergy Limited	No	It is unclear whether this would have an impact on liquidity due to the existing ability to bypass the market. However, if there is concern then it should be tackled using something like a Self Supply Restriction rather than blocking this proposal.
RWE Supply & Trading GmbH	Yes	We believe that P282 has the potential to reduce overall market liquidity since it will encourage parties to consolidate trading in a single trading account.
DONG Energy	Yes	P282 will further encourage netting and will make it less onerous to be out of balance. This could reduce the incentive for vertically integrated parties to participate in the short term markets close to delivery, which are the markets where liquidity is of particular importance as the GB market is moving to a system with more intermittent generation having a need to readjust positions according to changes in production forecasts.
E.ON	No	No. As above P/C accounts do not serve any real purpose; longer-term trading is independent of P/C, and short-term, parties are still trading the same amount of volume. Unlikely that P and C accounts are traded separately at the moment anyway.
IBM (UK) Ltd. (for and on behalf of ScottishPower)	No	We believe that any self-balancing actions taken will not reduce market liquidity. We do not believe that this is power which would otherwise be made available on the open market. For example if a generator has un-contracted capacity reserved for their own contingencies, which they use to self-balance a physical change elsewhere within their portfolio, you cannot say that this is power which has been removed from the open market.
International Power	No	P282 should not cause any significant changes in long term trading since parties should have no reason to change their strategy on whether to trade internally or externally. Even in the short term there should be little effect as most trading ceases with enough time to safely submit ECVNs – so a party will still want to trade externally if this is a cheaper option than trading internally.
Centrica	No	-
EDF Energy	-	We don't expect any significant impact on liquidity. As described in response to question 5, there is a slight risk that some parties might increase the level

Respondent	Response	Rationale
		of self-balancing after gate-closure, in contravention of the Grid Code, and there is a possibility this might be used instead of forward trading or internal notifications before gate closure. However we think the impact on forward traded volumes of this behaviour is likely to be very small. We would expect any systematic self-balancing to attract operational and regulatory attention.

Question 7: Do you have any further comments on P282?

Summary

Yes	No
5	7

Responses

Respondent	Response	Comments
Drax Power Limited	No	-
Eggborough Power Limited	No	-
National Grid	Yes	National Grid considered that one possible scenario as a result of P282 would be an increase in balancing actions with a resultant increase in balancing costs. Because exact behavioural changes are difficult to predict, this example scenario was based on our understanding of the workings of a typical PPA. Currently, smaller renewable generators tend to sell their output to a supplier, who provides a guaranteed buyer for both their output and receiver of their ROCs. In return for providing this guarantor status, suppliers usually pay full value on the ROCs and buy the power at a discount to market price (e.g. day ahead baseload). Typically this discount could be 10-20% of the prevailing market price. The rationale for the discount has usually been due to the fact that the supplier takes on the imbalance risk of the renewable generator and therefore the exposure to imbalance pricing. Short cover is always the most difficult to hedge against and the potential exposure a lot more detrimental than under long cover. However, the latter may be the greater problem going forward from the perspective of the supplier and it could be this that the proposed change under P282 may be aimed at mitigating. As the level of renewable generation penetration increases, there may be times when the system becomes very long, predominantly driven by the fact that renewables have to meter generation to receive the ROCs. We appreciate this may change under EMR for new generation projects that receive Feed-in

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		Tariffs with Contracts for Difference, depending on how such tariffs are structured; however existing renewables will remain on the Renewables Obligation arrangements and the Renewables Obligation will remain open to new generation projects until 31st March 2017 (at which point the RO provisions will be 'vintaged'), with a period of overlap with the new CfD FiT arrangements from 2014. Hence the incentive for a significant volume of renewables who wish to generate wherever possible will remain. Whilst NGET can instruct most renewable generation off, this tends to be at negative bid price. Thus far, where NGET has had to do this it is predominantly as a result of constraint actions, with the accepted bids being tagged out of the SSP calculation. Going forward, it is likely (particularly overnight) that NGET will increasingly be taking actions on renewable generation to manage the imbalance, first for downward margin and in future years for energy, both of which will feed into the SSP calculation. If we assume that additional volume has previously been taken on by suppliers and offloaded into the market with little price risk (because of the discount), it is less likely that this will be easy to achieve in future. Two possible scenarios may therefore happen: suppliers may ask for a bigger discount on the pricing index; or they may choose to contract slightly less volume generally against their demand position. It is not possible to quantify the extent, if any, of behavioural changes to support these scenarios. The former scenario is potentially addressed by the P282 change. The latter scenario is likely to increase balancing costs to NGET, as an element of headroom is lost. One way of managing less volume against a demand position would be to allow the transfer of excess power to the supplier consumption account. The supplier account could run slightly shorter to accommodate the excess when it occurs. Allowing this may mean that suppliers do not demand a further discount on the index price. P282 appears to dilute the incentive to balance accurately and as such, the excess (or short) generation position would still have to be managed by NGET at a potentially significant cost. Eventually, market price should reflect this increase in balancing

Respondent	Response	Comments
		action (i.e. go negative) as observed in Germany. In summary, the proposed modification may provide a means of transferring more of the balancing cost to NGET and, for the reasons outlined above, may result in the market providing less of its own reserve. The number of balancing actions required by NGET would then subsequently increase but this should be manageable under the new EBS system.
Statkraft Markets GmbH	Yes	Ofgem has recently launched the SCR on electricity balancing arrangements. If the conclusion of this review is to move to a single, marginal cash-out price, this could potentially negate the benefit of Parties being able to consolidate their energy volumes into one Energy Account. In this content, P282 could be seen as one mechanism that could enable Parties to exercise more control over their exposure to volatile, marginal imbalance prices. More generally, Elexon and Ofgem should actively be seeking enhancements to the market rules that permit trading parties to better manage imbalance volume risk, especially by removing distortions that prevent netting (restrictions on reallocation) or trading (deferral of gate closure; later notification of contracts).
SmartestEnergy Limited	No	-
RWE Supply & Trading GmbH	Yes	We believe a more effective approach would be to manage these issues within the context of the SCR that is to take place soon. Piecemeal changes may have unintended consequences when aligned to a wider market reform and may be better managed within a wider reform package. We believe this mod is rejected on the basis that they will be better treated within the overall SCR. The current methodology rewards those who are more effective in managing their overall portfolio through better forecasting, have lower balancing risk positions overall, and thus lower cost base. This modification to some extent limits this benefit, which undermines the reward of performance improvements and thus could be seen as not encouraging down overall energy market cost base.
DONG Energy	Yes	We do not believe this is the right time to take forward P282, as Ofgem's recently announced SCR on balancing is a more appropriate place to look at

Respondent	Response	Comments
		balancing issues in a wider context. We agree that there is an issue with exposure to high imbalance prices which P282 would allow parties active on both sides in the market to reduce. However, we believe that the two-sided market is beneficial for competition, and note that DECC have recently decided to implement Transmission Constraint Licence Condition which should reduce the cost of balancing (and hence imbalance costs) during periods of constraint. A cost-based approach in the Balancing Mechanism should reduce the cost risk presented by the SSP-SBP spread which will be beneficial to all players.
E.ON	No	-
IBM (UK) Ltd. (for and on behalf of ScottishPower)	No	-
International Power	No	-
Centrica	No	-
EDF Energy	Yes	In summary: • The complexity associated with the requirement to separately balance production and consumption accounts of the same party has created significant administrative and process effort, as well as opportunity for error, both centrally and within party businesses, with little obvious benefit. • The greatest proportionate benefit in consolidating production and consumption accounts appears to be for certain smaller participants that are active in both. The proportional benefit is relatively small for the largest parties, for whom the main benefit is probably simplicity and reduced opportunity for error. • We believe the market has developed sufficiently, with a diverse range of portfolios among large and small parties alike, so that removing the separation between Production and Consumption accounts won't have a detrimental impact on competition.

Respondent	Response	Comments
		<u>Detail</u> The requirement for wholesale balancing on separate production (generation) and consumption (supply to end-consumer) accounts, together with a dual imbalance price which is usually different for the two accounts, was introduced into the original NETA arrangements at a time when there was limited competition in generation, and full supply competition was relatively new. Amongst other things, there was concern that the advantages vertically-integrated companies would have over single activity companies could stifle competition, market liquidity, and new entry in the individual activities. At the time, combinations of the large incumbent generators and suppliers were contemplated, and there were uncertainties not only over the natural advantages of vertical integration, but over the advantages of size and potential market power. Dual imbalance prices introduce an artificial revenue stream from accounts with opposing imbalance, including the enforced separate accounts of vertically integrated companies. If all parties faced equivalent imbalance risks as a proportion of their gross volume, the reallocation of amounts collected between all parties would offset the implicit charge resulting from dual prices, with no net effect. By creating a charge on vertically integrated companies where a natural consolidation benefit could otherwise occur, the combination of dual price, separate accounts and reallocation of revenue to all parties helps those parties that do not have natural consolidation benefit. However, since NETA was introduced, competition has developed. Vertical integration in energy production and sale is common not only among large fomer state businesses, but also in new entrant organisations and alliances, not only in GB but across Europe and the World, as well as in Gas. The complexity associated with mandatory use of separate accounts has created significant administrative and process effort, as well as opportunity for error, both centrally, and within party businesses. Balancing on separate accounts, together with a dual imbalance price, was originally intended to promote competition through new entry in the separate activities of generation and supply to customers, by reducing the natural benefits that arise from

Respondent	Response	Comments
		consolidating costs and risks associated with different activities. However, as indicated by the proposer, newer participants also, and not surprisingly, seek the natural benefits of integrating production and end-customer sales, either directly or through partnerships. Analysis shows that many of these newer entrants would, per MWh of production and consumption, be the largest beneficiaries of the proposal. This is not surprising given the natural difficulty in balancing a smaller portfolio. Some of the largest participants could benefit also, but per MWh it is a relatively small advantage, and quite similar between the largest companies (we estimate less than +or- 0.01 £/MWh on average for the largest companies, most parties within about +or- 0.03 £/MWh, with benefits up to as much as about +0.20 £/MWh for a few of the smaller companies, based on data from 2011). We think competition is more developed now, and that it is appropriate to remove the artificial impediment to vertical integration caused by mandatory separate balancing on production and consumption accounts that can be subject to different imbalance prices at the same time. This would allow the benefits, second order as they are, of the natural consolidation advantage to pass to those that have it. With competition, this could ultimately result in small reductions in price for end-consumers. Currently, RCRC redistributes the additional imbalance charges that arise from requiring separate energy accounts while there are dual imbalance prices, between all parties according to market share. Participants without the natural advantages of vertical integration would lose the benefit they currently have from the levelling effect of RCRC, which redistributes some of the current over-recovery from some parties back to all parties. We note that the proposal would result in a slight loss of visibility of contract volumes at gate closure for the separate activities, which give an indication of the forecast levels of each activity and, after the event, the inaccuracy of those forecasts. However, we think this is probably of limited interest to other parties, and does not indicate who trades were made with, or whether there was an intended imbalance. Gate closure Physical Notifications and other operational data for individual BM Units will continue to be visible on BMRS, as well as metered volumes after the event

Respondent	Response	Comments
		from settlement. These probably provide sufficient information for other parties. If Ofgem were to require information in investigation of separate business activities, it would need detailed confidential access to trade agreements anyway, falling outside BSC settlement. Finally, we note that potential future adoption of a single imbalance price would deliver the same benefits to participants active in both production and consumption as this proposal, but would have other more wide-reaching impacts. It is the dual price arrangements that result in a net imbalance cost for equal and opposite imbalances in different parts of a company's portfolio, as well as the central collective revenue stream from participants more generally with opposing imbalances.