P305 'Electricity Balancing Significant Code Review Developments'

This Report Phase Consultation was issued on 13 February 2015, with responses invited by 3 March 2015.

Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
Western Power Distribution	4 / 0	Distributor
IMServ Europe	0 / 1	Supplier Agent
GDF SUEZ UK-Turkey	14 / 0	Generator, Supplier
SmartestEnergy	1 / 0	Supplier
VPI Immingham	1 / 0	Generator
Spark Energy	1 / 0	Supplier
InterGen	3 / 0	Generator, ECVNA
MPF Operations Limited	3 / 0	Generator
Co-Operative Energy	1 / 0	Supplier
Electricity North West Limited	1 / 0	Distributor
First Utility Limited	1 / 0	Supplier
TMA Data Management Ltd	0 / 1	Supplier Agent
RWE Supply and Trading GmbH	10 / 0	Generator, Supplier, Interconnector User, ECVNA, MVRNA
EDF Energy	9 / 0	Generator, Supplier, Non Physical Trader
Green Frog Power	0 / 1	Generator
Flow Energy	1 / 0	Supplier
DONG Energy	1 / 0	Generator, Supplier
Drax Power Limited	2 / 0	Generator, Supplier
SSE plc	6 / 0	Generator, Supplier, Interconnector User

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
RenewableUK	0 / 1	Trade Association
Total Gas & Power Limited	1 / 0	Supplier, Interconnector User
National Grid	1 / 0	Transmission Company
Vattenfall	1 / 0	Generator, Supplier, Interconnector User, Non Physical Trader, ECVNA, MVRNA
ScottishPower	5 / 0	Generator, Supplier, Non Physical Trader, ECVNA, MVRNA, Supplier Agent
Cornwall Energy	0 / 1	Consultant
Eggborough Power Ltd	1 / 0	Generator
Good Energy	1 / 0	Supplier, ECVNA, MVRNA
Centrica	15 / 0	Generator, Supplier, Interconnector User, Non Physical Trader
UK Power Reserve	1 / 0	Generator
E.ON	7 / 0	Generator, Supplier, Interconnector User, Non Physical Trader
Stark Software International Ltd	0 / 1	Supplier Agent
Utilita	1 / 0	Supplier

Questions Asked

Question 1: Do you agree with the Panel's initial recommendation that the P305 Proposed Modification should be rejected?

Summary

Yes	No	Neutral/No Comment	Other
24	7	1	0

Responses

Respondent	Response	Rationale
Western Power Distribution	Neutral	We believe Supplier Parties are best placed to comment on the recommendation. Areas that impact DSO are limited and our concerns are mainly driven by the proposed implementation date.
IMServ Europe	Yes	We agree that the Proposed Modification should be rejected. This is on the basis that the agent processes have been so insufficiently thought through and documented that this will result in inconsistent practices and behaviours which will subsequently jeopardise the achievement of the objective of the exercise and in turn the BSC objectives.
GDF SUEZ UK-Turkey	Yes	GDF SUEZ believes that P305 should be rejected for the following reasons: **1) The lack of any proven benefit for the RSP aspect of the modification.** It is noted that the RSP aspect of the modification will cost the Transmission Company somewhere in the region of £1 to £3.5m to implement. ELEXON's analysis has shown that with the LOLP aspect of the RSP function in place would have made no difference to cashout prices in 2013. The lack of a proven cost benefit does not better facilitate objective c. **2) P305 does not provide a reliable or logical scarcity signal** The only way the market will properly react to signals of system scarcity is if the cashout rules are clear and information relevant to the calculation of cashout prices is readily available. Shift traders and dispatchers need to make decisions in very short timescales and so clarity is absolutely vital. They need cashout prices that give a reliable scarcity signal. P305 does not provide this signal - for the RSP aspect of P305 to impact on cashout, the

Respondent	Response	Rationale
		following would have to be true: • The system would have to be short; and • The LOLP value forecast at 24 hours out and moving toward gate closure would have to provide a consistent signal that there was going to be a problem; and • LOLP would be high enough to change the STOR utilisation fee; and • After NIV tagging the RSP action would have to remain in the stack. Under the existing rules of cashout and in particular the NIV tagging, the price behaves unexpectedly at present. For example: on a tight day, if oil/peaking plant is called on in BM, one might expect the SBP to be high if the system is short, but it turns out not to be because lots of bids are taken as well for system reasons or reserve creation and the most expensive offer therefore disappears in the NIV tagging. As the PAR value reduces, it will becomes much more challenging to know whether the replacement price will remain untagged to affect cashout. From 2018, under a PAR of 1MWh, on very 'tight' days, it will be a lottery as to whether the replacement price and also demand disconnection will end up feeding into the cashout prices. The cashout arrangements are already highly complicated and P305 in its entirety adds to this complexity making it near impossible to have a view on the outturn cashout price. This does not promote competition (objective c) and is likely to discourage new entrants. **3) Demand control volumes can have a large impact on cashout prices but will be based on estimates** In keeping with other balancing actions, the volume of demand control that will feed into cashout will be based on that instructed rather than that delivered (the report refers to 'an estimate'). For conventional bids and offers, there is a strong incentive to deliver against the instructed offer. A shortfall on delivery against an offer is cashed-out at the higher of the offer price and SBP and for a bid at the lower of the bid price and SSP. Instructed offer and bid volumes are therefore likely

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		to closely align with delivery. There will be no such incentive for demand control volumes and no incentive to accurately estimate the volume. ELEXON notes in the Report that "Assuming a VoLL value of £6,000/MWh, it would only require a Demand Control event of around 170MWh for the total materiality to exceed £1m, and events, should they occur, are likely to be several times that size". That costs can be sensitive to what seem to be small volumes should suggest the necessity of using actual demand control volumes rather than an estimates in the cashout calculation. The report also notes that "results from a Voltage Reduction event could vary wildly for the same instructed volume" (pg. 51). It is of real concern that estimated volumes of voltage reduction will be included in the cashout calculation when there is clearly a great deal of uncertainty as to what has been delivered. The use of estimates (that could differ by several hundred MW and possibly more from reality) in determining a highly penal cashout price is not acceptable and will likely result in a legal challenge from BSC Parties who are faced with being cashed out at VOLL every time there is a demand control event. A robust process is needed to ensure that imbalance volumes either accurately reflect that instructed or have a strong incentive to ensure that balancing actions are delivered. The proposed solution does neither of these in its treatment of demand control and does not therefore better facilitate objectives b and d in this respect. **4) Insufficient lead time** The reports states that "All of the DSOs and Supplier Agents that responded to the Assessment Procedure Consultation disagreed with the proposed Implementation Date of 5 November 2015. In their responses, they noted that this would not leave enough time to implement the new processes that would be needed, especially given their view that the relevant parts of the solution applicable to them had not been developed sufficiently at this time". If following this Report Phase consultation the DSOs and Supplier Agents continue to collectively express this view, the modification cannot be implemented for the 5th November Implementation Date.

Respondent	Response	Rationale
SmartestEnergy	Yes	-
VPI Immingham	No	We have fully supported the proposed modifications under the Electricity Balancing Significant Code Review, believing that stronger incentives to balance are required in the market. We are therefore disappointed to see that the original proposals have been watered down somewhat and believe that the full intent of the modifications may not now be delivered.
Spark Energy	Yes	The proposal involves a significant amount of change and potential volatility that could impact smaller suppliers disproportionately, with a risk of significant unintended consequences. In particular, it may disproportionately impact smaller suppliers who have less access to trading arrangements and have to trade on imbalance for a greater proportion of their volume.
InterGen	No	The proposed modification strengthens the incentive on parties to make effective balancing decisions, and should encourage the development of flexible generation and demand-side response. The full package of proposals have been the subject of extensive consultation and detailed review over a number of years whereas, for example, the change to PAR100 (rather than PAR50 to PAR1) appears to be the result of an unhealthy compromise with little economic justification for the position reached.
MPF Operations Limited	Yes	We do fully support the general principles behind this modification. We believe that single, marginal prices will provide better incentives to balance, improving the efficiency of the system and driving down prices to customers. However, we are concerned about the LOLP functions not providing a clear signal and therefore the possibility that the parties will not respond in a rational manner. If the response is not rational there is a concern that the costs of balancing across the system could increase. We also feel uncomfortable that the system prices could go to VOLL in the event of a voltage reduction. It is our understanding that the last voltage issue went unnoticed by the country as a whole. It therefore does not feel cost reflective to charge out of balance parties VOLL under those circumstances. The comparison with the CM are not valid as the CM relies on their being a 4 hour

Respondent	Response	Rationale
		notice period before penalties would apply. DECC has specifically recognised that parties need time to respond to changes. A voltage issue may occur after gate closure and therefore the parties cannot respond at all.
Co-Operative Energy	Yes	Yes. While we support the proposed single imbalance price, we believe that the proposed reduction in PAR to 50MWh upon implementation with a further reduction to 1MWh on 1 November 2018 will create unmanageable hedging and imbalance exposure risks for smaller non-vertically integrated market participants. This will then act as a barrier to competition and new market entry. We also note and concur with the CMA's concerns in their update statement of 18 February 2015 that the proposed large reductions to PAR contained with P305 run the risk of overcompensating generators when coupled with the effects of the Capacity Market, thus resulting in further distortions in competition.
Electricity North West Limited	Yes	It is difficult to comment on the overall solution but from a Distributor's perspective the Proposed Modification seems to be an expensive solution (introduction of new data flows and changes to systems and interfaces) to what could be a simple reporting process. Consequently, it would be difficult to see how this would better achieve the Applicable BSC Objectives.
First Utility Limited	Yes	Please refer to our previous consultation responses.
TMA Data Management Ltd	Yes	-
RWE Supply and Trading GmbH	No	We believe that P305 Proposed Modification should be approved. The proposal will P305 will better meet both Objective b) and Objective c). P305 will make prices more reflective of the value to consumers of balancing, particularly during times of very tight margins. In doing so, market participants will be incentivised to make more efficient balancing and investment decisions. This should result in reductions in the total costs (to the SO and market) of maintaining a balanced system, whilst presenting savings on the costs of delivering secure electricity supplies in the future. A single marginal cash out price that appropriately includes

Respondent	Response	Rationale
		the value of reserve and demand control (at VOLL) eliminates distortions in the arrangements that currently impede value reflectivity, thereby supporting effective competition that drives value for the consumer. Strengthening the energy imbalance price signal will incentivise market participants to trade to balance their positions ahead of Gate Closure. This will result in increased liquidity in the forward market and benefit competition by encouraging investment in flexible capacity (flexible generation, demand participation and other technologies). The inclusion of a single imbalance price removes the existing inefficient price spread and for many market participants, in particular smaller parties who are less likely to drive the system length. This should reduce net imbalance costs and therefore help to mitigate the potential imbalance risk faced by market participants. P305 may alter the incentives for parties to enter the market. The modification will address existing inefficiencies which limit the potential for some parties, in particular those offering services that facilitate flexibility and balance (such as DSR or storage), to participate in the wholesale electricity market.
EDF Energy	Yes	EDF Energy is supportive of the overall goals of P305, and believes that some aspects of the proposed modification have merit. However, we agree with the Panel's initial recommendation that the modification should be rejected. EDF Energy supports the introduction of a **single cashout price**, although we have some concerns that this could negatively affect within-day liquidity as described in our response to the Assessment Procedure Consultation. On balance, we believe that this would have a positive effect against BSC Objective C. We believe that a **reduction in PAR to 50MWh, and more importantly to 1MWh**, is inappropriate, due to the potential for volatility due to granularity at the balancing margin, and anomalous effects of real physical balancing on half-hourly trade imbalance. These concerns were echoed in Stephen Littlechild's submission to the CMA investigation into the energy markets. We feel that a value of 100 MWh value would mitigate these concerns and would be more appropriate, at least until there is more experience of behavioural

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		changes resulting from Electricity Balancing Significant Code Review (EBSCR) changes. We therefore believe that this area of the modification would have a negative effect against BSC Objective C. Detailed Solution Area C on **Loss of Load Probability (LOLP) and Reserve Scarcity Pricing (RSP)**, and Area D on **Demand Control** are complex, with the robustness of the LOLP calculation still not fully proven and the accuracy and merits of adjusting supplier positions for demand control uncertain. We note that LOLP & RSP would rarely be significant and Demand Control will be called into action extremely infrequently. We therefore have concerns that the level of complexity and costs introduced may outweigh any benefits that these sections might bring, having a negative effect against BSC Objective D.
Green Frog Power	No	We do not agree with the Panel's rejection of the P305 proposed modification. The panel suggests that implementation would not be preferable to the current situation, in contrast to our own view, which is that P305 would significantly improve the market functioning. We think it is imperative that cash out prices are made reflective of real time system requirements and the costs of meeting those requirements in order to optimise the costs of the power system in Great Britain. We believe that P305 will impact the following BSC objectives as follows: *B The efficient, economic and co-ordinated operation of the National Transmission System* By virtue of ensuring that prices are reflective of the supply/demand characteristics in every settlement period, the signals for appropriate investment (at the right level and type) and operational planning will be sharpened, resulting in an economically efficient outcome. All elements of P305 are relevant from this perspective, single price, PAR50, the introduction of a Reserve Scarcity Price function, and VOLL pricing for disconnections. For the record, however, please note our preference for an immediate move to PAR1, rather than the gradual progression. We believe that there is no identifiable overall benefit to a gradual change,

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		particularly in the context of a simultaneous move to single price. *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* Sharpening the imbalance price signals will have the effect of increasing the incentive to ensure that positions are balanced prior to gate closure. This will increase market liquidity, thereby increasing competitiveness and improving the outcome from the perspective of efficiency, for all stakeholders, including customers, suppliers and generators.
Flow Energy	Yes	Flow considers that P305 would be detrimental to Objective (c). As a small supplier Flow has limited access to the resources required to mitigate the higher potential imbalance prices inherent in a move to both PAR 50 and PAR 1. Flow is also concerned that any increase in the complexity of BSC arrangements will place smaller suppliers at a disadvantage due to the level of expertise required, which small suppliers may find harder to obtain.
DONG Energy	Yes	DONG Energy does not believe that higher cash-out prices necessarily drive efficiency in the Balancing Mechanism (BM) and that, as a consequence, there will be subsequent material change towards investment in more flexible and fast response plant. DONG Energy are aligned with the concerns raised by the Panel, such that the proposed arrangements around the Reserve Scarcity Price (RSP) and the pricing of Demand Reduction Actions are not sufficiently developed yet. It is our view that the complexity of the overall package of changes does not allow a full impact assessment to be undertaken at this stage. Therefore DONG Energy believes that these changes will not better facilitate Applicable BSC Objective D. The P305 Proposed Modification as currently designed with an ultimate reduction to PAR1 will have a detrimental distributional effect on smaller market participants, particularly on those with challenging demand and/or generation forecasts that cannot react to signals from the new PAR regime. DONG Energy also recognises the concerns of some Panel members and the Competition Market Authority (CMA) that a fully marginal imbalance price could have the potential to allow for

Respondent	Response	Rationale
		some market participants to exercise market power. DONG Energy believe that as a consequence of high imbalance prices, parties with similar trading characteristics could try to adopt extreme inverse positions to the market which could create a risk of increased imbalances. Historic analysis (completed by Elexon) showed, particularly in a PAR1 scenario, that the number of occasions imbalance prices become negative will significantly increase. Overall the analysis around P316 and P305 covered a period of relatively mild winters and is therefore unlikely to accurately represent the actual impact of the proposed changes under more severe future market conditions. DONG Energy is also concerned that the expectation of system stress could incentivise generators to hold back or carry reserves (eg, part loading plant more than actually required) from the wider market to protect themselves from high imbalance prices. This form of self-insurance may act to exacerbate the problem particularly when this is in addition to the reserves procured by the GBSO to cover demand/ generation uncertainties (the system is predominately 'long'). This could have a significant impact on both the accuracy of price signal to the market and could lead to higher imbalance volumes when compared to a less marginal price calculation. On this basis DONG Energy believes that a reduction of PAR to PAR1 will not better facilitate the BSC applicable objective C and D. Overall therefore DONG Energy agrees with the Panel's initial recommendation to reject P305 Proposed Modification.
Drax Power Limited	Yes	Overall we do not believe that P305 Proposed should be approved. We believe that it will not better facilitate BSC Objectives (b) and (c). We are of this opinion for the following reasons: We agree that reducing the PAR value is likely to increase incentives to balance and therefore enhance competition and transmission system operation. However, we remained concerned that a move to PAR1MWh will increase the risks associated with system pollution and as such do not believe PAR1MWh is justified. We note the CMA's updated Issues Statement references concerns relating to

Respondent	Response	Rationale
		PAR1MWh[1]. We consider that in light of the CMA's investigation (and owing to the weight of the argument also) it would be sensible to adopt a more cautious approach. Implementing PAR100MWh appears a reasonable compromise in enhancing cost reflectivity and mitigating the risk of system pollution. We remain concerned that the adoption of a single cash-out price will reduce participants' incentives to balance and also result in a reduction in short term liquidity, especially at peak times. In principle we consider pricing demand disconnection and voltage reduction into cash-out is justified. However, the extremely high prices associated with these events are likely to have a disproportionate impact on smaller parties. Moreover, in the event of a disconnection event we are concerned about the correction of supplier volumes during periods when customers may be attempting to avoid Triad periods. In addition, from a practical implementation perspective, many important concerns have been registered by DNOs. This must place some doubt on whether this aspect of P305 can be implemented within the anticipated timescales. Our greatest concern with P305 is the adoption of a Reserve Scarcity Pricing (RSP) Function. We do not consider that the RSP Function (Static and Dynamic) has been adequately tested. The analysis undertaken to date (only on the Dynamic method) has produced counterintuitive results. As a result we are yet to be convinced that the RSP Function can produce robust signals to market participants to incentivise them to operate in an efficient manner. We consider that the RSP Function should be tested in a real world environment, preferably for a period of one year, to determine whether the solution is fit for purpose. In addition, we note the CMA's concerns that the RSP Function may result in overcompensation for generators[2]. While we do not share the CMA's concerns (the uncertainty associated with potential high prices will make it very difficult for generators to capture the value associated with these high prices), we nevertheless believe that it is prudent to delay this aspect of

1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/404867/Updated_Issues_Statement.pdf p11.

2 Ibid p11.

Respondent	Response	Rationale
		P305 to ensure that the CMA's concerns are fully taken into consideration.
SSE plc	No	SSE continues to believe that the value of flexibility and risk is not sufficiently priced into the market currently, inappropriately dampening prices, undermining the credibility of cash-out as an incentive price, and increasing unnecessarily the overall cost of residual balancing. SSE remain concerned that a diluted cash-out signal will continue to weaken incentives to trade forward and invest in the right type of products to provide flexibility and peak security when required. This will undermine investment in flexibility, and as a consequence increase the cost to the consumer to balance the system in the long-term (as demonstrated in Ofgem's modelling for the EBSCR) and potentially increase risk of failure to deliver security of supply, as supply and demand become increasingly unpredictable. SSE remain convinced that marginal pricing will the provide the most efficient balancing and flexibility signal, and strengthen the relationship with forward markets, encouraging innovation and investment in the development of flexible products to meet the needs of increasingly variable supply and demand curves. It also encourages investment in reliability to ensure that the physical assets developed to back flexibility products actually deliver when they are required at times of system stress. Additionally the removal of the dual price and associated cost of the spread removes unnecessary cost to all participants in the market, alleviating some of the additional cost incurred to price risk of exposure to high price cash-out. We continue to support the proposal to reduce PAR to 50 MWh in 2015 and 1 MWh in 2018 therefore. SSE also believe that the inclusion of a VoLL price signal and better signal of rising scarcity value into cash-out are important steps forward to provide improved critical peak price signals to participants in the market; and so encourage innovation in and development of emerging flexible technology to mitigate the associated risk. VoLL pricing into cash-out is a key advantage of P305 over P316 in our view, and whilst we have significant reservations about how the associated proxy demand is calculated in the event of involuntary demand

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		disconnection and remain unsure that a switch to dynamic LoLP calculation is necessary in 2018, on balance we believe that overall the proposal better facilitates objectives b) and c).
RenewableUK	Yes	RenewableUK notes that some of the policy context within which the Electricity Balancing Significant Code Review was developed has moved in recent months. In particular, it is significant that the Competition and Markets Authority is addressing the reforms of the balancing mechanism in its ongoing Energy Market investigation: in the recent issues statement update, the CMA voiced support for single cash-out but expressed concerns that very marginal balancing costs and the inclusion of Reserve Scarcity Pricing may not be the most economically efficient option for the balancing mechanism. It would therefore seem appropriate to reject all modifications which include either a move to PAR1 or the inclusion of RSP (or both), at least until the CMA has reported. Since both the alternatives to P305 presented include RSP, then RenewableUK agrees that they should both be rejected. At a higher level, it is also the case that the European Commission, as part of its Energy Union Communication of 25 February, is intending to bring forward a new market design later this year, with legislation to implement this planned for 2016. It would appear prudent to limit change to the balancing arrangements in the UK until this design is clearer: if major change was to be implemented in the UK now, and then the Commission brought forward a design that required further change, there would be two disruptive changes to the system in quick succession. This would appear to be against the economic and efficient operation of the system, and also hostile to competition in generation, with only larger players able to cope with such an amount of change.
Total Gas & Power Limited	Yes	BSC Objectives b), c) & d) would not be met and BSC Objective a) would not necessarily be better achieved than under the current arrangements. Lowering the PAR to 50 MWh upon implementation and then to 1MWh by 2018 would create a benefit to those suppliers who can react to a perceived tightening of the system. Whilst there would be an incentive for all participants to forecast correctly or more accurately, large vertically integrated

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		companies with flexible or reliable generation fleets would be able to provide optionality to their related supplier arms, which wouldn't be available to other independent suppliers via traditional market mechanisms. To the contrary of creating liquidity in the short term market, there is no incentive for these suppliers to provide short term contracts to other participants. Rather, they are more likely to withhold their flexibility to ensure their own positions are fully protected, before providing volume to other non-vertically integrated participants. There is an inherent risk that by withholding volume, which has historically been placed to market, vertically integrated companies may move to even further extremes by self balancing after gate closure, which in turn creates pressure and as yet, unknown effects on the Transmission Operator (failure on BSC Objective b)). Those participants that are medium to small sized and particularly those who have little or no vertical integration would therefore be at a disadvantage, failing to achieve BSC Objective c). To the contrary of more accurate forecasting, the proposed solution would encourage participants to nominate inflated positions, creating a net long GB forecast and reducing the efficiency of the balancing mechanism. The sizeable downside to introducing the P305 Proposed Modification could be the exit of many of these suppliers, because of their inability to react to the market signals. The move to a single market price is also an inhibitor to liquidity. Under the dual price system, it is noted that this has a level of complexity, may not fully reflect the value required when the system is affected by scarcity and incurs a level of cost due to inefficiency. However, the dual price system is mature enough to be fully understood, and does allow a sustainable level of trading to occur. By moving to a single market price, there is less of an incentive by trading parties, thus impacting on current liquidity.
National Grid	No	We agree with the views of the Panel that BSC Objective (b) is better facilitated by P305. However the majority of Panel members did not consider that P305 would be beneficial against Objectives (c) and (d) and that in combination the net impact of P305 is detrimental against the baseline. The rationale for the Panel's views on (c) and (d) are outlined in the Report Consultation, these concerns will be considered in turn. It is our

Respondent	Response	Rationale
		view that competition and objective (c) will benefit from P305 and that (d) is neutral. **Distributional impacts** The Panel expressed concerns regarding the distributional impacts resulting from P305. We consider that the impact of a move to single imbalance pricing should largely offset any increased imbalance risk to parties as a result of the sharper price signal at times of scarcity. Furthermore our view is that any distributional impacts should support competition by placing higher prices on those parties that contribute to system imbalance whilst rewarding parties whose imbalances alleviate it. With regards to analysis on this we are assured by the impact assessment analysis conducted in support of the EBSCR decision. **Ability of parties to respond at times of scarcity** With regards to concerns on whether parties would be able to act at times of scarcity due to the amount of liquidity in the market we note that there does not seem to be a clear majority view of the impacts of EBSCR on market liquidity. Whilst some respondents to the Assessment Consultation were concerned that intraday liquidity may dry up, others felt that the increased incentive to trade positions from a stronger imbalance price should improve liquidity. The ability of parties to respond to market signals is a factor to be monitored upon implementation but we do not see perceived reduction in liquidity as an inevitable consequence. **Potential complexity** Complexity was cited both as a potential barrier to smaller participants to understanding cash-out arrangements and as a potential cause of inefficiency to the implementation of balancing arrangements. The proposed two-step implementation under P305 should support a smoother transition to the final solution by starting with a more simple initial change. The static LoLP function should allow market parties the opportunity to become familiarised with the concept of Reserve Scarcity Pricing and the LoLP and its interaction with de-rated margin. Similarly, a stepped reduction in PAR provides time for industry to monitor how behaviour adjusts in response to the arrangement

Respondent	Response	Rationale
		changes.
Vattenfall	Yes	Firstly, Vattenfall supports the move to a single imbalance price. It supports Applicable BSC Objectives A and B. Furthermore, Vattenfall believes that it is necessary if moving to marginal balancing pricing. On the issue of marginal pricing, although a move to a lower PAR value could be perceived to support Applicable BSC Objective (D), Vattenfall believes that this consideration should be balanced with the increased impact on intermittent plant, particularly for smaller market players. Moving to the lowest PAR in addition to a single cash out price benefits large scale integrated utilities who are able to balance their own portfolio more readily than other market players. This move is against other action being taken by the regulator/CMA to increase competition in the energy sector. It is against the BSC applicable objective (C). The analysis undertaken by Ofgem has suggested that parties with more accurate forecasting would benefit from these reforms. As a company with intermittent generation only in the UK, the accuracy of the forecasting is obviously limited by the technology available at the time. Waiting to reduce the PAR values further will enable greater forecasting accuracy as new methods are developed which improve the accuracy of weather forecasting. In addition, the forward modelling undertaken by Ofgem assumed that all parties would and could change behaviour in a rational way. It is not necessarily the case that all parties have the capability to immediately change behaviour. This supports the argument for a slower transition through the reduction in PAR value to enable adjustments to processes requisite technology to change, to facilitate changes in behaviours in line with market incentives. In conclusion then, P305 negatively impacts smaller players and intermittent plant. A slower transition to a lower PAR value is needed. Vattenfall also believes that PAR 1 could be too low a PAR to transition to. A higher PAR value might achieve the same ends. As in our consultation response to EBSCR, we would support the insertion of impact assessments before all reductions in PAR, to assess how the market has responded, how groups of players have been

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		impacted and whether further reductions
ScottishPower	Yes	We believe that PAR=100MWh is an appropriate first move towards more marginal cash-out prices. However, a move to PAR=50MWh in November 2015 will not give parties sufficient time to adjust their strategy to significantly more extreme imbalance prices. By providing some of the "missing money" more marginal cash-out prices may incentivise investment in new flexible generation capacity thus better facilitating the operation of the National Electricity System. However, we are uncomfortable with a "hard wired" move to PAR=1MWh in 2018 for the reasons outlined at Q3 & 6 below. Thus, we find P305 Proposed Modification only marginally better achieves Applicable Objective (b). Removal of dual imbalance prices will remove the existing imbalance price spread and encourage Parties to balance their positions more efficiently. It should reduce net imbalance costs for many Parties, particularly smaller ones. The analysis provided shows that more marginal pricing will have significant distributional impacts on parties and potentially increased credit requirements on independent suppliers and independent wind generators. Therefore we do not believe that P305 Proposed Modification better achieves Applicable Objective (c). Based upon the analysis presented to the workgroup we do not believe that the proposed "dynamic" LOLP calculation provides a reliable or predicable signal to the market but support its use in deriving a "static" function fixed in advance for each season. It is not clear that the proposed solution to adjusting suppliers' volumes following demand disconnection events can implemented efficiently or in time for Nov 2015 implementation. Based upon our concerns with the LOLP calculation and treatment of demand disconnection, we do not believe that P305 Proposed Modification better achieves Applicable Objective (d). Overall, we do not believe that P305 Proposed Modification better achieves the Applicable Objectives and should be rejected.
Cornwall Energy	Yes	We are concerned about the impacts against applicable objective c) in respect of facilitating

Respondent	Response	Rationale
		competition of moving to PAR50 and then to PAR1. Making PAR more marginal has greater impacts on smaller parties in comparison to larger vertically integrated parties as a result of their exposure to imbalance prices, which is made more acute through barriers to trade and often less sophisticated risk management capability. The proposals for a Reserve Scarcity Pricing (RSP) function and the allocation of a cost for consumer disconnection add further unnecessary complexity into the BSC arrangements, which will make it more difficult to know when higher prices are coming and be harder for smaller parties to manage. While they may have a solid intellectual basis, inadequate consideration has been given to the mechanisms available to smaller participants to better manage the new price risks. We comment further on this below. The RSP function also requires a sophisticated understanding of modelling techniques and industry data to understand, adding another layer of complexity for smaller parties to manage. This pricing mechanism will only be used when non-BM STOR contracts are activated, but forecasting National Grid's use of this resource is extremely difficult. They are most likely to result in high prices during periods of system stress caused by generator failure which cannot be hedged against or forecast effectively (by any party). We are particularly concerned about the implication of a £3,000/MWh and £6,000/MWh imbalance price will have on the market, and have yet to see any analysis that prices at this level will change behaviours compared with those that would arise under the current highest recorded prices of ~£500/MWh. On the contrary we think it likely that the behavioural response would be significant with prices at the lower level; at a higher level it could simply result in business failure given the limited mechanisms available to manage the new risks. It is difficult to see how this would benefit consumers. In contrast we welcome the introduction of a single pricing mechanism as it reduces complexity and rewards those providing reducing imbalances, allowing smaller parties to benefit from their positions. However, we note that most of the analysis conducted so far has taken into account historical data on imbalance and it has been difficult

Respondent	Response	Rationale
		to assess the behavioural impact of this change: some market participants have concerns it could damage liquidity through parties withholding flexible capacity whilst some have said it will increase liquidity by encouraging financial parties into the power market. It may be that with some tangible experience of a single price and a reduced PAR as per P316A that the additional risks may not materialise or the competitive distortions might be more manageable. However, at present we consider on balance that with the current technology baseline available to suppliers and Ofgem needs to be able to demonstrate why it believes they will not materialise. We are also concerned that a marginal imbalance price based on a volume of less than 100MWh will not accurately reflect the cost to the system operator of balancing the system over a particular half hour: National Grid takes many actions during a settlement period and using only one action will not be reflective of the true cost. Therefore we do not support a reduction of PAR to 50MWh or a move to PAR 1MWh on the basis of the information provided thus far. This suggest there are question marks over the benefits claimed under Objective B (the efficient operation of the National Transmission system)
Eggborough Power Ltd	Yes	We are concerned that P305 original has not been fully defined and therefore cannot be signed off. It is unacceptable to change a commercial contract, which the BSC is, without knowing what the exact change will be. We recognise the work that the group has done on trying to create a dynamic LOLP function, but this does not yet appear to have resulted in the definition of a robust mechanism that would provide a transparent signal to the market. We do not object to the RSP in principle, but there is little point in a signal to which parties cannot respond. On P305A, the use of a static function seems unlikely to address the changes in the plant dynamics that are due to occur over the coming years. There seems a real risk that the signal will not reflect the actual state of the system and therefore could see the RSP set prices at the "wrong" times. If it is worth implementing an RSP then it is better to do it properly and not risk

Respondent	Response	Rationale
		creating signals that result in uneconomic behaviour. EPL would therefore suggest that the P316 alternate is implemented and work on the elements of P305 that are outside the scope of P316 are addressed under a new modification. This will allow additional time to get the signals "right" while still moving towards the package of changes Ofgem proposed in their SCR. EPL supports both P316 and P316A and believes both would better facilitate the relevant objectives. However, EPL shares the concerns that parties have expressed around a move to a marginal price in one step. We therefore support implementation of P316A as the better of the two options as it would better facilitate the objective around competition between parties compared to the P316 original. The further reduction of PAR over time remains a possibility and allowing parties to adjust their behaviour over time would be a prudent approach.
Good Energy	Yes	Overall we consider that the P305 Proposed Modification does not better facilitate the Applicable BSC Objectives and agree with the Panel's initial recommendation that it should be rejected. We believe the Proposed Modification to be neutral to all the Objectives other than (b), (c) and (d) and our assessment of it in relation to Objectives (b) (c) and (d) is set out below. **Objective (b)** The Proposed Modification would better reflect the value of flexibility, which would improve signals for investment in new flexible generation and demand side response, and for the retention of existing generation that would otherwise be mothballed. This should improve security of supply and enable the system to be balanced more efficiently, thereby reducing total costs to System Operator (and to consumers) of maintaining a balanced system. The Proposed Modification would likely result in highly unpredictable cash-out prices which many parties will be unable to react to. However this will incentivise parties to balance their positions more accurately. Furthermore, parties may elect to hold capacity for themselves until close to Gate Closure, to ensure their own position was secure, before trading the spare capacity close to Gate Closure,

Respondent	Response	Rationale
		thereby adversely affecting liquidity. We share concerns raised by the Modification Workgroup about the impact of low PAR values on possible distortions to cash out prices due to erroneous flagging and tagging of balancing actions, which creates the potential for an action that should have been tagged out to go on to set the imbalance price. Also, that PAR 1 would amplify existing inefficiencies in the current calculation whereby the SO can sometimes accept a high-priced offer in one settlement period to resolve an issue at that time, but because of the dynamics of the BM Unit called upon, that offer may have to persist for several hours, impacting future settlement periods where a lower-priced offer would otherwise have been accepted, creating market distortion for subsequent settlement periods. **Objective (c)** By better rewarding flexibility the Proposed Modification would improve signals for investment in flexible generation, thereby facilitating competition in generation. The analysis undertaken by Elexon shows that the introduction of single cash out prices benefits the smaller parties in particular, but that this benefit is consistently eroded as PAR is reduced. However, the analysis has been undertaken during a period of relatively benign market conditions and P305 will doubtless lead to significant behavioural change. Elexon has made no attempt to model how the distributional effects might change as a result of behavioural change and significantly tighter system conditions. Ofgem's EBSCR analysis only assessed the EBSCR conclusions as a whole package for relatively broad party types, making it difficult for individual parties to assess the likely impact on themselves. Also the EBSCR scenarios were undertaken at a time when expectations for power station fuel prices were somewhat different to what they are now. Hence the analysis undertaken provides limited insight to the distributional effects of the Proposed Modification. We would expect the introduction of single cash out prices to be of most benefit to smaller parties who tend be less able to balance their positions and thus disadvantaged most by the present inefficient price spread. On the other hand, larger trading parties

Respondent	Response	Rationale
		who are better able to afford sophisticated forecasting systems and other associated resource, such as 24/7 trading functions, & experience, should be better able than smaller parties to adjust to a market with sharper cash out prices driven by lower PAR and VoLL. We are very concerned that the Proposed Modification could have a detrimental impact on liquidity in the market, which would make it harder for smaller participants to trade at reasonable prices. During periods of scarcity, liquidity in the intraday and prompt markets may dry up, leaving independent parties exposed to very high imbalance prices driven by VoLL in conjunction with low PAR. During the last periods of significant scarcity in the period 2005-2008 liquidity in the prompt market became a major issue to market participants. Previously liquid markets dried up with very little volume trading and with huge price spreads of circa £700-1300/MWh. We are particularly concerned by the potential impact of extreme events on small renewable suppliers and independent (non-portfolio) generators where, if the wind does not blow or a generator trips at times of system stress, their imbalance is penalised by very severe cash out prices due to the effect of a low PAR value in conjunction with RSP. This is a significant risk which will add to their overall costs and could potentially put them out of business. By making cash-out prices more volatile the Proposed Modification would be expected to increase credit cover requirements although this would be mitigated to an extent by single cash-out prices. An increased credit cover requirement disadvantages smaller parties who tend to find it more difficult to provide the funding, and have a higher cost of capital, and so results in cash being utilised that would otherwise be used by the rest of the business. With PAR 1 there is the increased likelihood of cash-out prices being set by only one or two parties which provides the potential for those parties to exercise market power to the detriment of competition. We consider that any significant reduction in PAR should be phased and a move from 500 to 50 is too

Respondent	Response	Rationale
		large a change to make in a single step. Parties need time to time to adapt to the more challenging market conditions and we would prefer any reduction in PAR to be to 250 initially. **Objective (d)** P305 is substantially more complex and costly to implement than P316 for no proven additional benefit. The RSP and Demand Control parts of the solution are not fully developed or assessed. A major reason for the Workgroup preferring the 'static' to the 'dynamic' LoLP function was that most members considered the 'dynamic' function was not fit for purpose. The demand control actions covered by the P305 solution which would be priced at VoLL include voltage reductions. In our experience customers rarely notice voltage reduction measures so it is inappropriate to price them at VoLL.
Centrica	Yes	We support the view that balancing actions should not be viewed as merely incremental and could be taken sequentially or sometimes even forward-looking. Therefore the adoption of a PAR50 leading to the implementation of PAR1, would not represent the marginal cost of balancing and therefore does not improve applicable objective (d). We also have concerns that such an extreme value of PAR could lead to a single plant setting the cash-out price and could become subject to manipulation which does not improve applicable objective (b). Such a low PAR value also results in an increased risk of system pollution in the cash-out price against applicable objective (b) and moves away from reflecting the costs incurred by National Grid in balancing the system. We have some concerns that the adoption of a single cash-out price will detrimentally impact intraday liquidity as there will be little or no differential between price expectation on which to trade. This will increase day-ahead liquidity but could cause issues for market participants who wish to update their positions intraday, we suggest this is contrary to applicable objective (c). Additionally, although we support the implementation of a RSP function to re-price STOR contracts and the inclusion of demand control

Respondent	Response	Rationale
		actions in cash-out, we do not consider that sufficient time has been given to the working group to enable the complexity of these areas to be fully understood and a working solution developed and put forward for a decision. We are especially concerned over: • The lack of analysis from the static LoLP using historical data and therefore how this function would impact cash-out prices in the future. • The analysis on the dynamic LoLP's impacts only covers one benign year (2013) that did not include any notable periods of system stress – and under this modification this model will be implemented from 2018. • The accuracy of correcting supplier's imbalance volumes under the bottom up calculation and how this may impact different classes of Supplier. We therefore do not support the implementation of P305 Original.
UK Power Reserve	No	UK Power Reserve believes that the initial recommendation of P305 will better facilitate objectives (B) and (C) and of the BSC objectives and that the rejection of it by the panel will not facilitate these objectives. The principle benefit of P305 will be to increase the pricing signals to flexible capacity to address the missing money required to incentivise a more robust, secure and reliable energy market. This will reward and promote the more efficient management of portfolios and offer incentive to greater response to demand changes. Objective (B) will be better served through the sharpening of pricing signals to the market which will enable improvement in the provision of economic flexible capacity. Objective (C) will be better served by rewarding parties that have more balanced positions whilst more accurately representing the cost implications of imbalance, this is of particular importance with declining margins on capacity.
E.ON	Yes	Fundamentally our views have not changed since the Assessment consultation; we believe that the current arrangements work and furthermore that the combination of measures in P305 Proposed

Respondent	Response	Rationale
		would not better facilitate the BSC Objectives; from our point of view it would increase risk, but not incentivise investment. Thus we agree with the Panel and Workgroup that the Proposed P305 Modification should be rejected. Single pricing may bring more benefits than disbenefits. Non-BM STOR should be incorporated in cashout. We understand the theory behind Reserve Scarcity Pricing. However, in practice LOLP prediction looks to be of doubtful value in providing any signal to the market (contrary to Ofgem's original acceptance in the Technical Working Group that to be of value it had to do so); RSP potentially merely more penal to parties out of balance in a tight market, without providing any reliable incentive for generation, either short or longer-term. With a Value of Lost Load set at £3,000/MWh or £6,000/MWh, PAR 50MWh and especially PAR 1MWh would further increase the unmanageable risks of excessive costs for short parties, while over-recovering the actual cost of balancing to the SO. At a lower PAR there is a greater risk that a system action not correctly tagged, and that mistake not corrected in time, could have serious negative consequences for parties. It is not clear that the plans to adjust Suppliers' positions in the event of demand disconnections can be implemented in the proposed timescales. In our view such increased risks and costs from P305 would not help to provide an incentive to invest or otherwise resolve the 'missing money' problem. It seems more likely that the risk premia that parties would need to apply would simply lead to rising prices for customers. Determining changes to take effect in 2018, well beyond a general election with questions also about our ongoing membership of the EU, and many other significant changes to national arrangements such as DSBR, SBR and the Capacity Market yet to be fully implemented or their impacts assessed, also seems inappropriate. We do not believe that it would genuinely provide certainty that such changes would take place, rather raise the potential of extra work to undo aspects of P305 and/or implement any changes deemed more suitable nearer the time. This would be inefficient so negative under Objective D. Single Pricing alone would be a simpler arrangement and remove the unnecessary spread risk that parties face while separate Production and

Respondent	Response	Rationale
		Consumption Accounts remain in place. While parties will aim to balance accounts, this would also reduce the current in-built incentive to err towards a long position, so potentially a positive under Objective B as well as D. However single pricing could lead to well-balanced parties seeing negative rcrc impacts exceeding their imbalance costs owing to the actions of less well-balanced parties. This would be negative in the context of competition Objective C. A much sharper imbalance price, however, as expected in short markets under a lower PAR, could exacerbate the incentive to go long to a greater extent than a move to single pricing might reduce it. This would be less efficient, i.e. detrimental under Objective B, risking the TSO having to take more balancing actions than at present. Parties do aim to balance and we have invested significantly in systems to enable us to do so; it is unlikely that this could be much improved even were resources available to attempt this. There will always be a limit on forecast accuracy; as others have noted, there are always unexpected events on the supply and demand sides between gate closure and delivery which may cause an imbalance. Forcing excessively high imbalance charges on parties who may generally be well balanced but suffer e.g. a sudden drop in output due to circumstances beyond their control could be counterproductive to the extent of potentially forcing them out of the market, also detrimental under Objective C. Reducing PAR beyond a 'more marginal' volume to a fully marginal 1MWh also particularly increases the risk of tagging errors leading to a system action erroneously setting the imbalance price. While a tendency to over-flag has been assumed, the Workgroup heard a recent example of a missed system action, and even if such instances are spotted and corrected after the event, a party could still suffer serious adverse effects on costs and credit before any correction was made. Incorporating non-BM as well as BM STOR actions into cashout would be more accurate; the importance of this for accurate imbalance pricing has become more acute over time with the proportion of non-BM STOR increasing. However while bpa/BSAD may not be perfect, it is doubtful whether the static LOLP calculation to be used initially with VoLL to calculate an RSP would be any

Respondent	Response	Rationale
		better. Only recalculated annually, the static curve would also be based on historic data. As noted in the consultation document, it is not possible for generators to predict with accuracy when STOR will be used for energy balancing (although we seem to see this happen weekly). But it is not clear that indicative LOLPs (or derated margin forecasts) would provide any reliable signal and/or give this far enough in advance for generators to be able to react. When it comes to the Value of Lost Load and pricing of Demand Control actions, as the Panel have highlighted it is logical to take the same approach to VoLL in the CM and any EBSCR outcomes. (Although the suitability of the chosen (domestic/sme winter peak weekday Willingness to Accept) figure remains debatable given that it is intended to feed into prices that parties and ultimately their customers would pay if a party is short in a tight system (and without regard to Loss of Load Expectations)). It has been suggested that there is a risk that generators will be overcompensated by RSP in combination with the CM. In that there is no guarantee of any income from RSP resulting in a high SSP and thus it would not make sense to factor this with any certainty into CM bids this is potentially correct. However we believe a more likely and more risky scenario is that a spike in cashout prices during a scarcity event could see a short party, particularly a smaller player or intermittent generator, incur imbalance costs that it cannot pay, ultimately leading to it exiting the market. Overall thus we do not support P305 Proposed.
Stark Software International Ltd	Yes	As Supplier Agent we are not familiar with all the issues associated with this modification. Whatever benefits accrue elsewhere, it is clear that very little help and guidance has been provided to agents on what their part in these changes will be. Only today, the last day of the consultation (03/03/15) have we received detail of the draft flows required. I would assume that earlier respondents may not have seen this. Flows are to be received from the Distributor and SVAA and are likewise to be sent to them. With the exception of MDD data, D flows have not previously

Respondent	Response	Rationale
		passed to/from HH agents. We have had no time to look at the detail of the requirements or to assess what procedures/system changes will be required to populate them.
Utilita	Yes	As set out in our submission to the assessment phase, we agree that the P305 modification should be rejected. For our full view against each of the applicable BSC objectives, please see our assessment phase submission, answer to question 1, which is appended to this submission. Our comments in full remain applicable, this submission should also be read in conjunction with our submissions on P316 both for the assessment and report phases. We reproduce some of the key points below: In relation to **BSC objective B** (efficient and economic operation of the transmission system), we strongly believe that implementation of a PAR value of 50MWh and 1MWh will not provide material benefits in respect of BSC Objective B. Implementing marginal pricing can only provide benefits to the economic and efficient operation of the system where participants are able to respond to the price signals given in a timely manner. In the case of the imbalance price, the price signal is not available until after the event. Without sight of the imbalance price and with no ability to alter NHH demand in the short term, the suppliers cannot respond to marginal price signals. Reducing PAR (particularly to 50MWh and then 1MWh) is merely exposing suppliers to an ex-post increase in costs which is difficult to forecast and price into contracts. The suppliers are simply not in a position to respond to the prices generated by the changes in PAR. As suppliers cannot respond to the signal, this proposal would not better facilitate objective B. In relation to **BSC objective C** (competition in the generation, supply, purchase and sale of electricity), the proposal will expose all parties to less predictable and increased imbalance costs. The analysis previously included in the P314 consultation demonstrated the distributional impact among trading parties of a reduction in PAR to 250MWh. However the directional conclusions from this analysis would be equally valid for a reduction to 50MWh then 1MWh. The analysis showed that the

Respondent	Response	Rationale
		impact would not be expected to be equivalent across trading parties and hence would introduce competitive distortions between different types of suppliers. Smaller suppliers, especially independent domestic and non-domestic suppliers, and renewables generators will be relatively more exposed to imbalance prices than their larger competitors. This is most notable during times of system stress as identified in the analysis of changing PAR values, where on average smaller non domestic suppliers saw some of the greatest impacts during most system stress events which were analysed. As noted under Objective B, in addition at times of stress/scarcity, liquidity would fall, unduly impacting non vertically-integrated players. Higher balancing costs will disproportionately impact smaller suppliers who will inevitably have a greater proportion of their demand in balancing. This is not because smaller suppliers increase risk, it simply reflects trade sizes, portfolio stability and practical limitations on demand forecasting accuracy relative to larger players. National Grid as NETSO should balance the national aggregate position, with robust incentives to minimise balancing costs for the benefit of all and transparent reporting. If this is not the case this will lead to inefficient costs and all customers paying more than is necessary. Higher imbalance prices as a result of a reduction in PAR to 1MWh would also impact NETSO activity and their ability to balance the national aggregate position cost effectively. The introduction of a single cashout price would be an improvement and would better facilitate the applicable BSC objectives. However, this would not be outweighed by between players which may even impact players' ability to participate effectively in the market. Utilita strongly supports the view of workgroup participants who felt that a move to PAR value of 50MWh or even 100MWh was too big a step to take. A far more cautious approach should be taken and impacts of individual changes should be thoroughly assessed prior to next steps being taken. On this basis we feel, as below, that a single cashout price should be implemented and evaluated first, followed only if required by modest, staged changes to PAR, starting at PAR 350 MWh. This

Respondent	Response	Rationale
		change should be thoroughly embedded and assessed prior to any further changes which should be made under a separate modification and working group if required. The risk of detrimental effects to applicable objective C of change in big increments is significant and should not be underestimated. Utilita therefore considers that reducing PAR value as proposed would not better facilitate objective C, even with the mitigating impact of the single imbalance price proposed. **In respect of BSC Objective D** (promoting efficiency in the implementation and administration of the balancing and settlement arrangements), Utilita considers that P305 will not better facilitate objective D. Credit provision is already a significant cost in the industry, particularly to smaller players. The reduction in PAR would be expected to increase imbalance prices significantly. This in turn will increase credit requirements and costs for all players compared with the existing baseline. The increase in imbalance prices and reduced predictability would also lead to additional administrative and analytical costs, especially on smaller, less diversified portfolios. This increased burden relative to the status quo would not improve efficiency in the implementation and administration of the credit arrangements needed. On this basis Utilita does not consider that P305 implementation would better facilitate objective D.

Question 2: Do you agree with the Panel's initial recommendation that the P305 Alternative Modification should be rejected?

Summary

Yes	No	Neutral/No Comment	Other
24	5	1	2

Responses

Respondent	Response	Rationale
Western Power Distribution	Neutral	We believe Supplier Parties are best placed to comment on the recommendation. Areas that impact DSO are limited and our concerns are mainly driven by the proposed implementation date.
IMServ Europe	Yes	We agree that the Alternative Modification should be rejected as per our previous rationale.
GDF SUEZ UK-Turkey	Yes	Please see response to Q1. Keeping the PAR value at 100MWh has the same problems.
SmartestEnergy	Yes	-
VPI Immingham	No	As above. Whilst the alternative modification was a watered down version of the original, it would have better delivered the proposed objectives of the Electricity Balancing Significant Code Review than no changes at all. Whilst P316, should it be implemented, will deliver some aspects of the objectives, we support the principle of RSP and wished to see it implemented, believing that this would send sharper market signals to market participants.
Spark Energy	Yes	As above, the change involves introducing considerable uncertainty to smaller suppliers.
InterGen	Yes	-
MPF Operations Limited	Yes	Please see the rational above. While the alternative with a static LOLP is a more robust solution than the proposed (and not clear defined) dynamic LOLP, we still have concerns that neither will give the right signal at the times of system stress. This may become even less reflective of the state of the system as we see increasing volumes of intermittent generation connecting to the system. We believe these issues can be resolved, but require additional time for the working group to come up with something that does deliver the intent of Ofgem's SCR proposals. We would therefore be

Respondent	Response	Rationale
		supportive of the additional elements that P305 has compared to P316 being raised as additional change proposals that can be further developed. It is unfortunate that the BSC does not allow for multiple changes to be put to Ofgem for approval (as the CUSC does).
Co-Operative Energy	Comments	We would prefer for a single imbalance price to be introduced separately to any reduction in PAR and for a period of time to be allowed to assess the impacts of this prior to any reduction in PAR taking place. However, of the options available, we believe that the alternative modification prepared by the workgroup which introduces a single imbalance price while reducing PAR to 100MWh upon implementation is a less worse option in terms of potential negative impact upon competition and new market entry than P305 as originally proposed. It should also lead to a lesser risk of overcompensation for generators when coupled with the Capacity Market, again furthering competition. Nevertheless, for the avoidance of doubt, our belief is that a lesser reduction of PAR than contained in either the P305 Proposed Modification or the P305 Alternative Modification will create the proper incentive to balance in a tight network situation while avoiding an impact on competition likely to outweigh the security of supply benefits that this change might result in.
Electricity North West Limited	Yes	From a Distributor's perspective the Alternative Modification is no different to the Proposed Modification.
First Utility Limited	Yes	Please refer to our previous consultation responses.
TMA Data Management Ltd	Yes	-
RWE Supply and Trading GmbH	No	We believe that if the P305 Proposed Modification is rejected then P305 Alternative Modification should be approved. The proposal will P305 will better meet both Objective b) and Objective c) for the same reasons as stated in our answers to question 1.
EDF Energy	Yes	EDF Energy believes that the alternative value for the reduction in PAR to 100 MWh mitigates our concerns listed in Question 1, above. Additionally, the removal of the automatic step to a "dynamic" LOLP model reduces the complexity of the changes, providing a small beneficial effect. However, our

Respondent	Response	Rationale
		concerns regarding Area C and Area D remain, and in our view, these outweigh the potential positive effects of the modification.
Green Frog Power	Yes and No	Our answer is "yes" in comparison to the proposed modification, but "no" on its own merit. We think the alternative modification would be preferred to the current baseline for the reasons outlined in our response to Question 1. Our order of preference of the options is: 1. The proposed P305 but with an immediate move to PAR1, 2. P305 as proposed, 3. P316 4. The alternative P305 5. The alternative P316 All are preferred to the baseline.
Flow Energy	Yes	See answer to Question 1
DONG Energy	Yes	DONG Energy agrees with the Panel's initial recommendation that the P305 Alternative Modification should be rejected. Although we believe the impact of a PAR100 will be less than the proposed PAR1 scenario it will not eliminate the risk of the distortions that we outlined in our response to Question 1. Furthermore, we are disappointed that even with the majority of the assessment consultation respondents preferring the phased approach to a PAR250, upon implementation, followed by PAR100 later, this was still not considered as an Alternative Modification. With regards to the Reserve Scarcity Price (RSP) and the Pricing of Demand Control Actions, please refer to our comments to Question 1.
Drax Power Limited	Yes	Yes for similar reasons provided in answer to question 1.
SSE plc	No	For the same reasons as Q1. The benefits of single marginal pricing with VoLL and scarcity pricing signals (albeit less marginal than the proposed) outweigh the drawbacks, better facilitating objectives b) and c), albeit that PAR 100 will be less effective than it could be given the corresponding removal of dual pricing.
RenewableUK	Yes	See answer above.

Respondent	Response	Rationale
Total Gas & Power Limited	Yes	BSC Objectives b), c) & d) are not met and BSC Objective a) would not necessarily be better achieved than under the current arrangements. Even with a reduced PAR of 100MWh, the points raised in answer to Question 1 are still valid. Small and Medium sized businesses would struggle to hedge their positions ahead of delivery, and liquidity would be shifted further to Gate Closure or as previously mentioned, past it into a "self balancing" regime. The Transmission Operators' ability to "pre-instruct" in the lead up to settlement would be more difficult, and overall the Transmission Operators role would centre more on very short term balancing of the market. The removal of a dynamic LoLP model is potentially beneficial, because whilst it does not necessarily capture dynamic imbalance prices (their very nature), the static model is a simpler and more transparent model for all participants to follow. Moving to a dynamic LoLP model, would only exacerbate the negative impact on suppliers that are less able to trade their positions ahead of gate closure.
National Grid	No	We believe that P305A better facilitates Objectives (b) and (c) for the same reasons set out regarding the lead P305 proposal. Furthermore for the reasons set out in Question 1 we do not share the concerns expressed by the BSC Panel on the potential detrimental impacts.
Vattenfall	Yes	See our initial P305 consultation response above
ScottishPower	Yes	Whilst marginally better than the P305 Proposed Modification due to the more conservative approach towards marginal pricing and the enduring use of the "Static" LOLP function, P305 Alternative still contains the Demand Disconnection and STOR pricing elements for which the Workgroup has been able to develop reliable, consistent and predictable methodologies. Overall, we do not believe that P305 Alternative Modification better achieves the Applicable Objectives and should be rejected.
Cornwall Energy	Yes	Yes, for the same reasons as given for the P305 original proposal above.
Eggborough Power Ltd	Yes	Please see rational above.
Good Energy	Yes	Overall we consider that the P305 Alternative Modification does not better facilitate the Applicable

Respondent	Response	Rationale
		BSC Objectives and agree with the Panel's initial recommendation that it should be rejected. We believe the Alternative Modification to be neutral to all the Objectives other than (b), (c) and (d) and our assessment of it in relation to Objectives (b) (c) and (d) is set out below. **Objective (b)** The Alternative Modification would better reflect the value of flexibility, which would improve signals for investment in new flexible generation and demand side response, and for the retention of existing generation that would otherwise be mothballed. This should improve security of supply and enable the system to be balanced more efficiently, thereby reducing total costs to System Operator (and to consumers) of maintaining a balanced system. The Alternative Modification would likely result in highly unpredictable cash-out prices which many parties will be unable to react to. However this will incentivise parties to balance their positions more accurately. Furthermore, parties may elect to hold capacity for themselves until close to Gate Closure, to ensure their own position was secure, before trading the spare capacity close to Gate Closure, adversely affecting liquidity. The concerns we mention in response to Question 1 about possible distortions to cash out prices due to erroneous flagging and tagging of balancing actions and other inefficiencies in the current calculation would be considerably diluted with PAR at 100. **Objective (c)** By better rewarding flexibility the Alternative Modification would improve signals for investment in flexible generation, thereby facilitating competition in generation. As explained in response to Question 1 we consider that the analysis undertaken by Elexon and Ofgem provides very limited insight to the distributional effects of the Alternative Modification. We would expect the introduction of single cash out prices to be of most benefit to smaller parties who tend be less able to balance their positions and thus disadvantaged most by the present inefficient price spread. On the other hand, larger trading parties who are better able to afford sophisticated forecasting systems and other associated resource,

Respondent	Response	Rationale
		such as 24/7 trading function, & experience, should be better able than smaller parties to adjust to a market with sharper cash out prices driven by lower PAR and VoLL. We are very concerned that the Alternative Modification could have a detrimental impact on liquidity in the market, which would make it harder for smaller participants to trade. During periods of scarcity, liquidity in the intraday and prompt markets may dry up leaving independent parties exposed to very high imbalance prices driven by VoLL in conjunction with lower PAR. During the last periods of significant scarcity in the period 2005-2008 liquidity in the prompt market became a major issue to market participants as detailed in response to Question 1. We are particularly concerned by the potential impact of extreme events on small renewable suppliers and independent (non-portfolio) generators where, if the wind does not blow or a generator trips at times of system stress, their imbalance is penalised by very severe cash out prices due to the effect of a low PAR value in conjunction with RSP. This is a significant risk which will add to their overall costs and could potentially put them out of business. By making cash-out prices more volatile the Alternative Modification would be expected to increase credit cover requirements although this would be mitigated to an extent by single cash-out prices. An increased credit cover requirement disadvantages smaller parties who tend to find it more difficult to provide the funding, and have a higher cost of capital, and so results in cash being utilised that would otherwise be used by the rest of the business. We consider that any significant reduction in PAR should be phased and a move from 500 to 100 is too large a change to make in a single step. Parties need time to time to adapt to the more challenging market conditions and we would prefer any reduction in PAR to be to 250 initially. **Objective (d)** P305 is substantially more complex and costly to implement than P316 for no proven additional benefit. The RSP and Demand Control parts of the solution are not fully developed or assessed. A

Respondent	Response	Rationale
		major reason for the Workgroup preferring the 'static' to the 'dynamic' LoLP function was that most members considered the 'dynamic' function was not fit for purpose. The demand control actions covered by the P305 solution, which would be priced at VoLL, include voltage reductions. In our experience customers generally rarely notice voltage reduction measures so it is inappropriate to price them at VoLL.
Centrica	Yes	Although the adoption of PAR100 is an improvement over the Original modification we are concerned that there has been insufficient time given to the working group to enable the complexity of these areas to be fully understood and a working solution developed and put forward for a decision. We are especially concerned about: • The lack of analysis from the static LoLP and how this would impact cash-out prices in the future. • The accuracy of correcting supplier's imbalance volumes under the bottom up calculation and this this may impact different classes of Supplier. We therefore do not support the implementation of P305 Alternative prior to further analysis being undertaken to address these concerns.
UK Power Reserve	No	UKPR would prefer the initial recommendation to be approved we are also supportive of the alternative modification in that it does achieve the objectives set out by the modification but to a much lesser extent than the proposed modification. The applicable BSC objectives are the same as for the main modification, we do stress however that limiting the impact of this modification will dilute any improvements brought about which we believe to be against the best interests of the stability of the energy market and against the objectives of the BSC.
E.ON	Yes	P305 Alternative is an improvement upon the Proposed Modification in moving to a slightly higher PAR 100MWh value than the Proposed, though one that is still considerably more marginal than at present. Although the change to £6,000/MWh VoLL remains, in also not pre-determining changes to PAR or the LOLP methodology for 2018 we believe it 'less worse' than P305 Proposed. The static

Respondent	Response	Rationale
		calculation method is not ideal, however neither is determining, as the Proposed modification would, that a dynamic methodology yet to be finalised would definitely take its place. It also seems that the implementation date of 5 Nov 15 would still be challenging for some parties. Consequently while P305 Alternative is an improvement on the Proposed modification, we agree with the Panel that overall at present it would not further the BSC Objectives and should be rejected.
Stark Software International Ltd	Yes	As above
Utilita	Yes	Please see our answer to question 1 above and the appended copy of our assessment phase submission. While P305 Alternate proposes a change to PAR 100 rather than the PAR 50 and PAR 1 of P305 Original, based on the analysis provided in the detailed assessment, we agree that P305 Alternate should be rejected. In our assessment phase submission we set out our view that the most appropriate change which would better facilitate the applicable BSC objectives would be to implement a single imbalance price and assess the effects in the context of wider industry change. A further option would be to implement a single imbalance price in conjunction with a modest reduction in PAR to 350MWh as previously proposed. However if this approach were taken, we believe that its impact post implementation should be carefully monitored to assess the combined change (of single imbalance price and reduction in PAR to 350MWh) in conjunction with the wider changes to the industry (implementation of a capacity mechanism and CfDs under EMR) prior to considering further change under a new modification and working group.

Question 3: Do you agree with the Panel's initial recommendation that the P305 Alternative Modification would be better than the P305 Proposed Modification?

Summary

Yes	No	Neutral/No Comment	Other
19	10	3	0

Responses

Respondent	Response	Rationale
Western Power Distribution	Neutral	We believe Supplier Parties are best placed to comment on which of the options is preferred.
IMServ Europe	No	We have no view on this aspect
GDF SUEZ UK-Turkey	No	P305 has the minor benefit that the LOLP function is based on actual plant availabilities rather than historic ones. It therefore better reflects the extent of system stress.
SmartestEnergy	Yes	-
VPI Immingham	No	No, we believe that an incremental approach with a move to a lower PAR value in the, future, such as 1MWh, is an appropriate approach to the implementation of the cash out reforms. We do not think that a move to a PAR of 100MWh will have any significant impact on behaviour going forward. In addition, we supported the change from a static to a dynamic LoLP in the future, believing that the dynamic LoLP is a better reflection of what is happening in the market and therefore delivers improved market signals. We recognise that there were some issues with the proposed solution from the workgroup, but the proposal could allow for the function to be modified.
Spark Energy	Yes	It is preferable as there is potentially less adverse impact.
InterGen	No	-
MPF Operations Limited	Yes	Were Ofgem to implement P305 we would prefer the alternative due to our concerns about the undefined and not yet workable dynamic LOLP methodology. As noted above, we do support additional work being undertaken on this particular issue.

Respondent	Response	Rationale
Co-Operative Energy	Yes	Yes, we believe implementation of the P305 Alternative Modification would better facilitate competition and new market entry and reduce the risk of distorting competition through the creation of unmanageable risk for non-vertically integrated smaller participants and overcompensation of generators when coupled with the Capacity Market compared to the P305 Proposed Modification.
Electricity North West Limited	No	From a Distributor's perspective there is no difference between the Modifications.
First Utility Limited	Yes	Please refer to our previous consultation responses.
TMA Data Management Ltd	No	We do not believe that P305 or its alternative would better facilitate objectives (c), promoting efficient competition; or objective (d), promoting efficiency in the implementation and administration of the balancing and settlement arrangements.
RWE Supply and Trading GmbH	Yes	P305 Alternative Modification will address concerns about the calculation of LOLP and allow for the progressive change in PAR values through future modification proposals.
EDF Energy	Yes	While EDF Energy believes that neither the Proposed Modification nor the Alternative Modification better facilitate the Applicable BSC Objectives, the detrimental effects of the Alternative Modification are less than those of the Proposed Modification, as detailed above in Question 2.
Green Frog Power	No	We do not believe that PAR100 would provide the required improvement in price discovery to aid with BSC objectives B & D, as compared to the Proposed Modification, (noted in our response to Question 1). We do agree however, that the Alternative Modification is an improvement compared to the baseline. Adequate price discovery is crucial to the efficacy of a well-run, efficient, truly competitive market, and the arbitrary choice to reduce the sharpness of those prices (though a muted PAR value in particular) will result in a less efficient outcome than that which could so easily be achieved. The regulator and the market should seize this opportunity to improve the competitive functioning of the market to the overall benefit of all stakeholders.
Flow Energy	Yes	Flow considers that the Alternative Modification is preferable to the Proposed Modification in respect of

Respondent	Response	Rationale
		objective (c) regarding facilitating competition as a higher PAR is more representative of the cost to the system operator of balancing the system in a particular half hour.
DONG Energy	Yes	DONG Energy does not support either P305 Proposed or the Alternative Modification, however we believe that a PAR100 and a RSP which is based on a static LOLP could help lower the impact on the market and is therefore preferable over a PAR1 and a dynamic LOLP. On this basis we support the Panel's initial recommendation that the P305 Alternative Modification would better facilitate the applicable BSC objectives as opposed to the P305 Proposed Modification.
Drax Power Limited	Yes	Yes but only marginally. This is specifically because the Alternative does not intend to adopt a PAR1MWh value, which we consider unnecessarily increases risks associated with system pollution of cash-out prices.
SSE plc	No	SSE prefers a more marginal signal than PAR 100 MWh to send a credible scarcity price signal that will encourage the correct forward trading behaviour to invest in and mobilise flexibility backed products; but believes that PAR100 as a minimum is a step in the right direction compared to the current baseline.
RenewableUK	Yes	Given the concerns of the CMA on the move to PAR1, and RenewableUK's concerns about the impact of such a move on its members, we believe that the Alternative Modification's inclusion of a PAR value of 100 is preferable, though as noted above we do not support either the Proposed or Alternative Modification.
Total Gas & Power Limited	No	BSC Objectives b), c) & d) would not be met. The Panel have not proposed a solution that is evenly fair across the different types of suppliers. Invariably, under both the Proposed and Alternative SCR Modifications, small suppliers will be at a disadvantage, and would struggle to be able to effectively access the short term market.
National Grid	No	With regards to the LoLP we consider the dynamic function to be more accurate than the static and the appropriate long term solution however we appreciate that on introducing the concept of RSP a static function would be more accessible for industry to understand. On the matter of the PAR volume, whilst we support

Respondent	Response	Rationale
		the reduction in PAR (under the Alternative) as a positive step, in our view reducing the PAR to the extent proposed in the lead solution would better incentivise market parties to efficient balancing by being more reflective of the value that imbalance places on the system for that given Settlement Period.
Vattenfall	Yes	Yes. We think the alternative proposal has features which are preferable to the original in respect of objective c) regarding facilitating competition: • a higher PAR value is more representative of the cost to the system operator of balancing the system in a particular half hour; • a hardwired switch to PAR 1 MWh is undesirable, both because it would not be cost reflective and because of the distributional impacts of such a move. It also does not appropriately reflect the uncertainties in the electricity industry between now and implementation
ScottishPower	Yes	By adopting a more conservative approach to moving towards more marginal cash-out pricing P305 Alternative provides parties with time to respond to the price signals in a rational economic manner. Maintaining the PAR at 100MWh gives parties the certainty that a move to even more marginal pricing will not occur until the benefits of the move to PAR = 100MWh have been demonstrated and the merits of a further move have been fully justified.
Cornwall Energy	Yes	Yes. We think the alternative proposal has features which are preferable to the original in respect of objective c) regarding facilitating competition. Thus; • a higher PAR value is more representative of the cost to the system operator of balancing the system in a particular half hour; • a hardwired switch to PAR1 is undesirable, both because it would not be cost reflective and because of the distributional impacts of such a move. It also does not appropriately reflect the uncertainties in the electricity industry between now and implementation; and • a static LoLP function is less complex and easier to forecast and hedge against than a dynamic LoLP function.

Respondent	Response	Rationale
Eggborough Power Ltd	Yes	Yes, but EPL would suggest that neither are better than the baseline and we would therefore urge Ofgem to reject both. It is a design flaw that the BSC does not allow for multiple modifications and thus rejection is necessary. However, we would support National Grid then re-raising the elements of the modification as single modifications that can then each be progressed into robust solutions. In the case of P316, EPL agrees with the Panel that the alternative is a more robust solution than the original and should be implemented.
Good Energy	Yes	We consider both the Proposed and Alternative Modifications to be neutral to all the Applicable BSC Objectives other than (b), (c) and (d) but the Alternative Modification to better facilitate the Applicable BSC Objectives than the Proposed Modification in relation to Objectives (b), (c) and (d) as set out below. **Objective (b)** The Alternative Modification would reward flexibility a little less than the Proposed Modification, but both are likely to result in highly unpredictable cash-out prices, which parties are unable to react to, due to their increased volatility, but slightly less so in the case of the Alternative Modification with PAR at 100. Hence incentives to be balanced would be slightly less than with the Proposed Modification. The incentive for parties to elect to hold capacity for themselves until close to Gate Closure, adversely affecting liquidity, would be less with PAR 100 than a lower PAR. The concerns we mention in response to Question 1 about possible distortions to cash out prices due to erroneous flagging and tagging of balancing actions and other inefficiencies in the current calculation would be less of an issue with PAR 100 than a lower PAR. **Objective (c)** The less marginal prices under the Alternative than the Proposed Modification would: • better facilitate competition in generation less than under the Proposed Modification by providing less of an increased reward for

Respondent	Response	Rationale
		flexibility; • better facilitate competition in generation because of there being much less likelihood of cash-out prices being set by only one or two parties (which provides the potential for those parties to exercise market power); • better facilitate competition in supply more than under the Proposed Modification by having less of an adverse effect on smaller parties in the following respects (explained in more detail in response to Questions 1 & 2 above): o smaller parties being less able to adjust to a market with sharper cash out prices from lower PAR; o less likely to have a detrimental impact on liquidity in the market that would make it harder for smaller participants to trade; o the potential impact of extreme events on small renewable suppliers and independent (non-portfolio) generators would be less; o an expected increase in credit cover requirements being less. **Objective (d)** The Proposed Modification includes the 'dynamic' LoLP function in addition to the 'static' LoLP function which increases the complexity and cost to implement of the Proposed Modification for no proven additional benefit. A major reason for the Workgroup preferring the 'static' to the 'dynamic' LoLP function was that most members considered the 'dynamic' function was not fit for purpose.
Centrica	Yes	As stated above, we do not support the implementation of such an extreme value for PAR as we don't consider that it represents the marginal action on the system, it could result in pollution from system actions setting the cash-out price and a single plant could potentially manipulate the cash-out price. Additionally, we do not support the automatic adoption of a dynamic LoLP calculation without further analysis and development in this area. We therefore suggest that the P305 Alternative is better than the P305 Original.
UK Power Reserve	N/A	No comment

Respondent	Response	Rationale
E.ON	Yes	As stated under question 2, we view P305 Alternative as an improvement upon, insofar as being 'less worse' than the Proposed Modification. Moving to a more marginal but slightly higher PAR 100MWh value than the Proposed 50MWh in 2015 changing to PAR 1WMh in 2018 would impose less of a step-change in imbalance pricing on parties, though still providing a significantly more marginal price than the present PAR 500MWh. PAR 100MWh seems a sensible compromise value given that the Workgroup's historical analysis suggested that the greatest impact on imbalance prices would be in dropping from PAR 250MWh to 100MWh, owing to the typical NIV. P305 Alternative would also be an improvement on the Proposed in not attempting to hard-wire into the BSC a change to PAR 1MWh or a yet to be finalised dynamic LOLP methodology in 2018. We have misgivings about both of these elements. While we understand that LOLP will be furthered under an Issues Group, moving to a fully marginal PAR raises clear concerns that while in many settlement periods PAR 1MWh might still capture more than one action, it would further increase both price volatility and the risk of tagging errors feeding into prices having a more damaging effect. Depending on the magnitude of the NIV and contributing actions, reflecting the cost of the marginal 1MWh could also mean charges levied being far in excess of those actually incurred by the SO to balance. This does not seem efficient. Specifics of PAR and LOLP calculation aside, we are nervous of the very notion of determining now/from Ofgem's 2014 Final Policy decision, changes to be implemented in Nov 2018 when the energy market could be very different to the present situation.
Stark Software International Ltd	-	No view
Utilita	Yes	Please see our answers above and the assessment phase submission appended. P305 Alternate could be viewed as being less detrimental than P305 original, but as per figure 4 in the associated detailed assessment and associated analysis, the difference is slight. Hence we consider that P305 Alternate should also be rejected.

Question 4: Do you believe that the redlined changes to the BSC deliver the intention of P305?

Summary

Yes	No	Neutral/No Comment	Other
23	3	6	0

Responses

Respondent	Response	Rationale
Western Power Distribution	Yes	Redlined changes impacting DSO seem suitable. However we would require red-lined versions of BSCP changes and DTC changes in order to develop system changes to deliver the requirements.
IMServ Europe	No	As noted in question 1 we feel that the level of detail in the redline changes is still significantly short of that required to allow the Agents to deliver the intended services and flows as per the intentions of this Modification. We raised some very detailed questions in our response to the previous consultation which demonstrate the lack of detail. We have neither received a response to these nor note any reference to these concerns in the ELEXON Panel report. Further, we are extremely disappointed that the BSC subsidiary documents are still not available for us to review at this last point in the consultation process. This will further jeopardise Agents' ability to deliver the services required. Without this level of detail we feel we are unable to give a comprehensive answer to the redlined changes and clearly we can give no feedback on the BSC subsidiary documents. As an example, section 3.7.2 states: "E is an estimate of the metered data during the Demand Control Impacted Settlement Period in normal conditions calculated in accordance with BSCP502;" However BSCP502 section 4.2 sets out a hierarchy of estimation methods that the HHDC would not want to follow for period impacted by a DD event, for example, copying from a check meter would not be appropriate but that would be the method the HHDC is bound to use under BSCP502 as it currently stands.

Respondent	Response	Rationale
GDF SUEZ UK-Turkey	No	The DNOs and Supplier Agents have given the view that the relevant parts of the solution applicable to them have not been developed sufficiently. This must be addressed to the satisfaction of these parties before a decision is made to approve P305.
SmartestEnergy	No comment	-
VPI Immingham	-	-
Spark Energy	-	-
InterGen	Yes	-
MPF Operations Limited	Yes	-
Co-Operative Energy	Yes	Yes, we agree that the draft legal text will deliver the proposed intent of P305.
Electricity North West Limited	Yes	Should P305 be approved the red-lined text does appear to deliver the intention from a Distributor's perspective.
First Utility Limited	Yes	-
TMA Data Management Ltd	Yes	-
RWE Supply and Trading GmbH	Yes	The proposed redline changes deliver the intention of P305
EDF Energy	Yes	The redlined changes appear to deliver the intention of the modification.
Green Frog Power	Yes	The changes appear to reflect the intent.
Flow Energy	Yes	-
DONG Energy	Yes	DONG Energy believes that the redlined changes to the BSC as outlined in Annex B and C deliver the intention of P305 Proposed and Alternative Modification.
Drax Power Limited	Yes	We believe it does.
SSE plc	Yes	-
RenewableUK	-	No opinion
Total Gas & Power Limited	Yes	We see no issues with the draft redlined changes to the BSC, other than the alternative definition of Reserve Scarcity Pricing (RSVP).
National Grid	Yes	Whilst we agree that the redlined changes to the BSC reflect the intent of the P305 changes, we have

Respondent	Response	Rationale
		some comments on the specific wording for the purposes of clarity. Some of these details are the outcome of recent discussions with ELEXON on potential implementation. Comments have been with reference to the Proposed Modification Legal Draft but apply where relevant to that of the Alternative Legal Draft. **Q.6.1.25** The requirement for the de-rated margin forecast states '24 hours ahead' however this does not align to the agreed requirement in the workgroup which was to set a value at 12:00 on each calendar day for the next operational day (requirement C2.2) and does not correspond to the equivalent dynamic LOLP requirement 6.8.1(a)(i). **Q.6.2B.1** and **S9.2.1** The reference to Non-BM STOR Instructions should stipulate that it is those that are 'demand-side' for which data is required (as per requirement D5.6) **Q6.7.1** The requirement is for the submission of the static LoLP "curve" however this is a potential misnomer as the submission is likely to take the form of either an equation and/or a look-up table relating de-rated margin to the LoLP. The requirement states that the curve is 'in accordance with the LoLP Calculation Statement', therefore the Statement should provide that the curve submission can take either of these forms as opposed to being submitted as a diagrammatical curve. **Q6.9.1(a)** The use of the phrase "unless abnormal circumstances prevent it" is ambiguous in the context of a demand control event that is a very exceptional event in itself. The term 'within reasonable endeavours' had been agreed in the workgroup with respect to the target times cited under 6.9 (as per requirement D2.1) and better capture intent of the requirement. **Q6.9.2** As discussed with ELEXON, although the existing text uses OC6, the cases outlined do not best represent the demand control event types that would be required for this purpose. We recommend changing to: 6.9.2 For the purposes of paragraph 6.9, a Demand Control Event shall be: (a) voltage reduction instructed by the Transmission Company as set out in OC6.5 of the Grid Code; (b) an automatic low frequency Demand

Respondent	Response	Rationale
		Disconnection as set out in OC6.6 of the Grid Code; and/or (c) demand disconnection instructed by the Transmission Company as set out in OC6.5 of the Grid Code. **Q6.9.3(f)** and **Q6.9.4(f)** both requirements state the estimates should be based on demand control instructed however the agreement of the workgroup (stated in requirement D2.1 & D2.2) was that these estimates should be based on demand control "anticipated to be delivered". **T3.15.1** This paragraph appears to refer to a 'demand control event stage' which appears to be a period of demand control for which a given notified demand control level estimate is applicable (i.e. should a further instruction be notified then that would initiate a subsequent stage). The current text appears to state that the 'Demand Control Event End Point' triggers the end of that stage referencing Q6.9.5. Q6.9.5 notifies the end of a demand control event, not a stage, and since it is the end of the event there is no corresponding estimate for the level of demand control at that point (as the demand control level would be zero). The current text appears to stipulate that the end point level of demand control for a stage will always be zero (rather than a positive volume if the subsequent stage is an instruction for further demand control). Therefore there may be potential confusion in the interpretation of this paragraph between the end of a demand control event and a demand control stage. **T3.15.2** refer to start and end point 'volumes' however this may be a typo with the intention that these should be 'levels'. **Identifying STOR Actions** The concept of a STOR flag is currently used in the proposed legal text however it is not defined. We agree with the intent of the legal text with respect to STOR however some amendments may be required to reflect the latest considerations on implementation. Recent discussions with ELEXON on implementation design have identified a potential new requirement for National Grid to submit forthcoming STOR Availability Window details to the BMRA, which in combination with the STOR flag should be used to determine whether a given action

Respondent	Response	Rationale
		is subject to the RSP price in cash-out. Whilst the intention of treatment of STOR actions is unchanged and the proposed solution remains the same, we should ensure that the definitions introduced in the legal text are consistent with the processes for implementation which are being developed. In line with this we anticipate that a new requirement for STOR availability window details may be introduced.
Vattenfall	Yes	-
ScottishPower	Yes	We have not been able to conduct a detailed review but the proposed changes appear to deliver the intent of P305
Cornwall Energy	Yes	-
Eggborough Power Ltd	Yes	EPL does not like the fact that the function for the dynamic LOLP calculation has not been worked up into a robust solution. In effect Ofgem would be signing off a modification that is incomplete and therefore cannot be shown to better facilitate the relevant objectives.
Good Energy	-	We do not have a view on this.
Centrica	Yes	-
UK Power Reserve	Yes	UKPR agrees that the proposed changes to the BSC are appropriate for achieving the intended objectives.
E.ON	Yes	We believe the legal text is satisfactory.
Stark Software International Ltd	No	Without specific BSCP or procedural documentation, the DC/DA role although key to the provision of data is still very unclear.
Utilita	N/A	No answer provided

Question 5: Do you agree with the Panel's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
17	12	0	3

Responses

Respondent	Response	Rationale
Western Power Distribution	No	Detailed change documentation (BSCP & DTC change proposals) have not yet been issued and agreed through the industry change processes. Until these are available we cannot begin detailed development work. Given that it is already late February it is doubtful whether such changes can be approved in time for a November 2015 implementation date. In addition, SMRS changes may be required to implement this change. We anticipate that November 2015 is likely to be when SMRS is being used for testing with Smart DCC processes and we would not want to risk implementing system changes coincident with that. A June 2016 implementation would be more manageable and would remove the risk of implementing during what is likely to be ab exceptionally busy period.
IMServ Europe	No	We rejected this date under all previous consultation and our views have not changed since. We also note that the two other agents who responded to the last consultation shared our views. Given this consistent view from Agents, it would seem ill considered and unwise to continue to target November 2015. We repeat here the reasons for our objection – The lack of both clarity and detail prevents us committing to be able to implement this proposal by November 2015. Until we know the detailed requirements, we cannot: Modify our processes and systems Agree commercial arrangements with Suppliers for providing this service on their behalf The lack of detail includes –

Respondent	Response	Rationale
		• No proposed draft versions of the 4 new flows (Dxxxx to Dzzzz) • No redline changes to Subsidiary documents It is only when this work has been completed and agreed that Agents can commence development work and discuss commercial arrangements with Suppliers. As previously discussed and in line with other Agents responses, we would therefore expect an implementation period of 12 months from the date that this Modification was approved Furthermore and of major importance, the changes already timetabled under P300 for November already include updates to the main HHDA settlement reporting flows. The lack of detailed requirements being placed on Agents under P305 does not allow us to form a view whether such changes are harmonious or contradictory in nature to P300 or indeed if such changes are likely or unlikely to be so. Our recent experience of implementing the changes to support new HHDA activities under EMR have demonstrated that the lack of detailed requirements have increased the time taken and the risk of errors, in delivering such services. It may be unwise to implement two separate sets of changes concurrently (by multiple parties across the industry) without a significant risk to the Half Hourly settlements processes, particularly with such stringent time constraints.
GDF SUEZ UK-Turkey	Not sure	Whilst GDF SUEZ finds the proposed implementation date acceptable, it is essential that the DSOs and Supplier Agents can implement their changes by this date. If they cannot, and Ofgem does decide to implement P305 then implementation should be delayed. In addition, the GDF SUEZ UK-Retail supply business will require a 6 month lead time to make changes to some of its supply contracts where they reference the current balancing arrangements.
SmartestEnergy	Yes	-
VPI Immingham	Yes	Yes, we support implementation ahead of Winter 15/16 believing the improved market signals are required as soon as possible.

Respondent	Response	Rationale
Spark Energy	-	Not sure what the Implementation Date is, but any change implemented for November 2015 seems too soon, and for suppliers with a Gas License (i.e. most) it does not take account of the major changes that are also being implemented in the gas market through Project Nexus on 1st October 2015.
InterGen	Yes	-
MPF Operations Limited	Yes	-
Co-Operative Energy	No	We would prefer the introduction of a single imbalance price with a period following this to allow assessment of the effect of this change on the market prior to any reduction of PAR. However, should this not be possible, we feel that it would be better to direct implementation on 1 April 2016 and thus allow a summer period during which imbalance prices are likely to be less volatile for post implementation assessment. Implementation on 1 April 2016 could be reasonably expected to provide smaller non-vertically integrated participants with more time to adjust to the change to PAR in relatively benign cash-out conditions than during the winter contract when a greater level of imbalance price volatility can be expected.
Electricity North West Limited	No	The changes being proposed involve the introduction of new Dataflows and this normally requires a lead time of 6 months. Notwithstanding all the other key initiatives being developed and implemented over the next six months e.g. smart meter roll-out the change process as not yet started on the introduction of these flows making it very difficult to support the implementation date.
First Utility Limited	Yes	-
TMA Data Management Ltd	No	We do not agree with P305 or its alternative.
RWE Supply and Trading GmbH	Yes	-
EDF Energy	Yes	Subject to a timely decision by the Authority, we believe that six months lead time would be sufficient to implement the necessary system and process changes within the business. We note, however, that there has been considerable uncertainty about what reforms, if any, would be implemented as a result of the proposals raised

Respondent	Response	Rationale
		following EBSCR. A relatively short lead time between the changes going firm, and the implementation date could lead to an inappropriate misallocation of risk between energy companies and their customers. We therefore would encourage the Authority to expedite the decision-making process as far as it is able.
Green Frog Power	Yes	We think that P305 should be implemented as soon as possible. We see no impediment to implementation in November 2015. Winter positions are just starting to be hedged in any significant volumes and there is sufficient time to implement any potential contractual or systems/process modifications. Cash Out reform is being brought in because suppliers and generators are not fully exposed to the costs they impose on the system. This distorts the system distorted and the ensuing inefficiencies ultimately results in higher prices for consumers. Having observed and then decided to correct this distortion, why should consumers wait for the rectification and meanwhile continue to pay for the ongoing distortions?
Flow Energy	Yes	-
DONG Energy	No	DONG Energy believes that the recommended implementation date 5th of November 2015 would be possible from an operational perspective. However, an implementation date after Winter 2015 would give market participants the opportunity to adapt to the new market environment during the summer before potential higher system stress events occur in Winter 2016.
Drax Power Limited	No	We appreciate that Ofgem is committed to a November 2015 implementation date. However, we believe that consideration should be given to recommend a later implementation date, perhaps mid-2016. This is for two main reasons: Firstly, and most importantly, we are unsure that the modification can be practically implemented by November 2015. This is due to implementation concerns voiced by the DNOs and also due to the lack of testing of the RSP Function. Secondly, we consider there is merit in implementing the proposal with a longer lead-time and during a more benign market period, i.e. Summer. This will better enable market participants to develop new trading

Respondent	Response	Rationale
		strategies.
SSE plc	Yes	Changes are need for this Winter to better incentivise flexible capacity to remain available as system margins tighten. November 2015 therefore remains an appropriate target date.
RenewableUK	No	An implementation date of 5 November 2015 does not allow sufficient time for all market participants, particularly smaller ones, to prepare adequately for such a significant change. It is also the case that the proposed implementation date is just ahead of the most testing time for wind generators, where their ability to manage the new arrangements will be most challenged. Moving the date to spring 2016 would give more time for the change to be implemented, and would allow wind generators to get used to the new arrangements over the less challenging summer period.
Total Gas & Power Limited	No	Implementation of these changes are too early and do not allow suppliers vertically integrated or not to "bed in" and understand the very different market they are operating in. Instead the proposed date comes just before what is a traditionally a volatile time and also follows swiftly on from two bearish winters. Many suppliers will need to readjust their thinking regarding forecasting, as the behaviour of their customers and the nature of their portfolios will have altered, but not been fully understood in times of, for example, extreme cold. We can again relate this back to an unfair disadvantage to Small and Medium suppliers. Larger vertically integrated companies on the whole will have substantially larger portfolios and changes within these will likely be netted off, unlike those of Medium and Small suppliers.
National Grid	Yes	-
Vattenfall	Yes	-
ScottishPower	Yes	Although we do not support implementation of either P305 Proposed or P305 Alternative Modification, implementation aligned with the November 205 BSC Systems Release as recommended by the Panel seems logical.
Cornwall Energy	Yes	-
Eggborough Power Ltd	Yes	Assuming that the IT can be developed in a robust manner. EPL has had a number of concerns recently about how IT is being developed in the

Respondent	Response	Rationale
		market. It is extremely important that cash-out prices are robust and can be relied upon by contracting parties.
Good Energy	No	In view of the extent of the changes in P305 and the potential size and uncertainty of their impact, we consider implementation should be delayed until Spring 2016. This would allow parties to start to adjust to the changes during a period when the system is generally likely to be less tight than over Winter 2015/16. We also consider that reducing PAR from 500 to 50 would be too large a change to make in one step. Any reduction in PAR should be to no less than to PAR 100, before any further reduction is contemplated.
Centrica	Yes	-
UK Power Reserve	Yes	UK Power Reserve supports the introduction of P305 to allow a complete winter period at the new market conditions, we would however support any move to bring the date forward. UKPR does not agree with the decision to delay the drop to PAR till 2018 but this appears unavoidable at this time – we strongly believe that staggering the decrease to a PAR 1 system achieves nothing in terms of reducing the implementation burden and only serves to water down the benefits achieved by sharpening the imbalance pricing methodology, especially over a period of increased system vulnerability to imbalance. We would therefore support any measure to bring forward the reduction to PAR 1.
E.ON	No	We do not believe that it is clear that the existing balancing arrangements need to change (a view seemingly backed up by the CMA's finding that presently self-dispatch is leading to close to technically efficient operation of the system). On balance we also do not believe the P305 package would be an improvement; consequently, we do not support implementation of either P305 Proposed or Alternative at all. However, while if approved the planned implementation date should be feasible for ourselves, it does not give parties much lead time to prepare from the date of a decision and this may be more of a problem for certain classes of party. DSOs and Supplier Agents were previously clear that they could not achieve the necessary changes by 5 Nov

Respondent	Response	Rationale
		2015; consequently a June 2016 release, which could also allow for further development of e.g. LOLP and voltage reduction volumes, would seem more prudent. We do not believe this would have any negative impact upon availabilities in winter 2015-16.
Stark Software International Ltd	No	Until sufficient documentation exists then November 2015 would seem unrealistic. Business changes taking place already to support P300 and P272 would compound risks.
Utilita	N/A	As we consider both modifications should be rejected, we do not support the recommended implementation date.

Question 6: Do you believe that expected changes between now and winter 2018/19 mean it would be inappropriate to include further hardwired changes in P305 proposed to go live on 1 November 2018?

Summary

Yes	No	Neutral/No Comment	Other
19	8	5	0

Responses

Respondent	Response	Rationale
Western Power Distribution	No comment	-
IMServ Europe	N/A	We have no view on this aspect
GDF SUEZ UK-Turkey	Yes	BSC Parties can raise a modification to change any aspect of the BSC arrangements at any time. There is no need to hardwire such a change.
SmartestEnergy	Yes	-
VPI Immingham	No	No, we do not believe that it is inappropriate to include a future hardwired change. Having a hardwired change gives market participants ample time to adjust to any behaviour ahead of the proposed implementation. With the proposed step change, time is factored in to understand the consequences of the initial change before the subsequent change and it provides certainty to market participants as to the future. Should there be any issues, further modifications could always be raised to address any concerns.
Spark Energy	Yes	It is clearly too soon to be building in firm changes for winter 2018/19 ahead of other expected changes.
InterGen	No	The intention of moving to PAR1 provides a clear directional signal to the market. To suggest that it is "hardwired" is to misunderstand the nature of the BSC change process. If, in fact, the changes do not lead to the benefits outlined in the detailed analysis prepared by the Authority, then it is clearly possible for an alternative implementation date or alternative proposals to be brought forward at a later date by a BSC party.
MPF Operations Limited	No	Generally we favour the longer notice period for change that modifications that P305 and P316 offer.

Respondent	Response	Rationale
		There is often concern that the market may change between sign off of a change and its implementation. However, this has to be weighed against the stability that earlier decisions offer. On balance we feel it is better to know what the course of travel is likely to be. That said we do recognise the concerns surround P305 original with the operation of the dynamic LOLP function still needing to be worked up. As there is no ability to raise further alternatives to the modification, were the original to be implemented we would have to rely on Ofgem making sure that the full package of change can be agreed or the dates for the move from static to dynamic to be removed from the BSC.
Co-Operative Energy	Yes	Yes, we share the view of the CMA that a reduction of PAR to 1MWh in November 2018 would risk overcompensating generators when coupled with the Q4 2016 launch of the Capacity Mechanism. We also feel that a PAR of 1MWh could be expected to create unmanageable imbalance and hedging risk for smaller non-vertically integrated participants and have a serious negative impact on both competition and new market entry.
Electricity North West Limited	-	Not applicable to Distributors.
First Utility Limited	Yes	Please refer to our previous consultation responses.
TMA Data Management Ltd	No comment	-
RWE Supply and Trading GmbH	No	We do not believe hat a case has been made that changes between now and winter 2018/19 mean it would be inappropriate to include further hardwired changes in P305 proposed to go live on 1 November 2018. We support implementation of the EBSCR on the timelines indicated in the Ofgem decision document.
EDF Energy	Yes	We do not believe that PAR values should be subject to an automatic change at some point in the future. We believe that it is impossible to accurately model the effect that the proposed changes to the cashout arrangements would have on market participants, and we would look for empirical evidence on the effects of these changes before supporting further change. Given that a BSC Modification to change PAR could be raised and assessed relatively quickly, we feel it would be

Respondent	Response	Rationale
		better for the Industry to take stock following implementation of this modification, and take an evidence-based decision on whether a further reduction was desirable.
Green Frog Power	No	As we have stated, we believe that P305 should be implemented as soon as possible, and that we should further strengthen it and go to PAR1 in November 2015. We identify no clear benefit to maintaining the current system which is less efficient and less competition promoting than P305. In fact, we think that a gradual approach might imply to the market a lack credibility of intent to proceed all the way to the final desired outcome – PAR1, alongside single pricing, the RSP and VOLL pricing of demand control. Prices in the Capacity Market will undoubtedly be influenced by Cash Out reform. The higher cash out prices are, the more generators will be motivated to provide power during peak hours, a clear aim of Cash Out reform. So if reform is delayed consumers could be asked to pay for 15-year Capacity Market agreements that will be higher than if the reform is brought in before the next Capacity Market auction. An early credible signal is required to ensure that the market responds in an appropriate way, especially now with plants bidding into the capacity market 4 years in advance. The CMA have expressed their concern about this and we think the best way to mitigate this concern is to immediately implement the full span of reforms, rather than drip feeding them in such a way that the market is unsure of the appropriate degree of response.
Flow Energy	Yes	The number and scale of changes that are proposed between now and 2019 have put large demands on the resources of small suppliers. Any changes that fundamentally affect small suppliers within this period would put them at disadvantage as they will have less access to the resources required to mitigate the risks.
DONG Energy	Yes	DONG Energy does not believe that it is appropriate to include hardwired change as proposed in the P305 Proposed Modification. We agree with the Panel's thinking that ongoing change in and reform of the electricity market has the potential to produce a significantly different baseline scenario compared to today's situation.

Respondent	Response	Rationale
Drax Power Limited	Yes	Many near future developments could impact the merits of P305. However, we object to the hardwired changes in P305 in principle, i.e. the proposed hardwired changes do not in themselves better facilitate the BSC Objectives. In particular, we object to the use of PAR1MWh for reasons presented in answer to Q1. Additionally, we do not consider it sensible to codify in advance the implementation of a "Dynamic" LOLP model, especially where we're uncertain of its final design and how stable and robust it will be. Ultimately, the potential changes between now and 2018/19 are not relevant to our evaluation of the merits of the proposal.
SSE plc	No	In normal circumstances SSE do not believe that it would be appropriate to hardwire changes so far in advance without a further test of suitability against the baseline. However, in this circumstance, SSE believes that the industry requested and required a medium-term signal in order to value potential scarcity rent that might be realised through the balancing market and therefore adjust prices for initial capacity market bids correspondingly. We believe that the solution to lower the PAR value to 1 in 2018 in particular provides the certainty of signal required to better inform approaches to pricing in the capacity market. We therefore believe that in this circumstance it is appropriate to hardwire these changes with plenty of forward notice.
RenewableUK	Yes	Given the CMA enquiry and other ongoing reforms to the electricity market and wider energy policy, it does not appear appropriate to hardwire in further changes on 1 November 2018. If further changes are required later, then code modifications can be raised at that time.
Total Gas & Power Limited	Yes	Whilst a long term signal to the market is preferable, the dynamic make up of the UK generation fleet, new European network codes and other unknown changes would not be best served by hardwiring further changes in at this point in time.
National Grid	No	The electricity market is in a period of considerable transition which includes regulatory changes such as Electricity Market Reform and the EU Target Model as well as adapting to new system conditions as a result of the changing generation mix. The Panel expressed concerns that hard-wiring future changes into the BSC now creates a risk of presupposing

Respondent	Response	Rationale
		what arrangements would be optimal in 2018. In our view providing early sight of future changes has the benefit of securing long term signals to the market which is an important consideration in the context of the intentions of EBSCR. The EBSCR policy package is intended to drive changes to incentivise balancing and investment decisions. Given the known increase in intermittent generation that is anticipated over the next few years, signalling a sharper cash-out price at this point through P305 is an effective means of demonstrating the value of flexible plant this in turn should help counteract tightening margins in future years. Should unexpected changes transpire that fundamentally shift the perceived efficacy of the 2018 hard-wired changes, the BSC governance process would allow for a reversal of those changes either as a standard or urgent Modification. However we consider this to be unlikely and therefore it is more important that market signals are confirmed at this stage in order to influence appropriate investment decisions.
Vattenfall	Yes	Given the uncertainties that exist over the future of the electricity industry between now and 2018-19 including: • the Competition and Markets Authority investigation; • outcomes following the 2015 general election; • transmission charging changes; • changes under the Third Package model for European integration; and • further changes to support schemes such as the Capacity Market, Contracts for Difference and the Supplemental Balancing Reserve/ Demand Side Balancing Reserve. We believe that it would be inappropriate to hardwire in any further changes until the outcomes of these issues are known
ScottishPower	Yes	We believe that following a change in PAR value in 2015, time should be allowed to observe the effect of the change, to determine whether the benefits claimed in the SCR are delivered and then to determine whether a further change in PAR value is justified. In addition, a number of additional

Respondent	Response	Rationale
		initiatives to improve security of supply are being introduced in the period to 2018 which may remove the justification or need for more marginal pricing. For this reason we do not support "hard wiring" a further change in 2018 into the current P305 proposal.
Cornwall Energy	Yes	We do not believe it is appropriate to hardwire changes into the BSC for a future date given the changes underway and uncertainties that exist over the future of the electricity industry between now and 2018-19 including: • the Competition and Markets Authority investigation; • outcomes following the 2015 general election; • Transmission charging changes; • Changes under the Third Package model for European integration and implementation of the Single Target model for the electricity market • further changes to support schemes such as the Capacity Market, Contracts for Difference and the Supplemental Balancing Reserve/ Demand Side Balancing Reserve; and • A shift to one day switching As stated above, we consider a move to PAR1 would be detrimental to competition and consumers.
Eggborough Power Ltd	Yes	In general hardwiring future changes into codes risks making the industry a hostage to fortune. There are so many developments at both the GB and EU level that may make the 2018 changes either unpalatable, unadvisable or even illegal. It would therefore be a more robust solution to allow the market to raise future changes nearer the time were Ofgem, or the parties, still of the view that further changes are required. There seems to be some benefit in adopting a wait and see approach if implementation timeframes could still be achieved, which it appears they can.
Good Energy	Yes	In view of the current low level of European harmonisation in respect of balancing arrangements it may be difficult to reach a consensus on a European Network Code. Until it is finalised it will remain unclear as to what extent the current GB balancing arrangements will comply with EU requirements. The introduction of the Capacity

Respondent	Response	Rationale
		Market, Supplemental Balancing Reserve and Demand Side Balancing Reserve can be expected to impact cash-out and it seems likely that the CMA investigation will lead to changes to industry codes. The General Election in May 15 may do so too and perhaps lead to even more fundamental market change. The changes to cash-out under consideration for implementation from November 2015 will lead to behavioural change – likely to be significant in the case of some parties but the responses to the Assessment Consultation showed a variety of views on this. Until these changes are implemented and Parties have had time to adjust to them, it is impossible to foresee with any certainty what their effect will be. For these reasons we consider it would be inappropriate to include further hardwired changes in P305 proposed to go live on 1 November 2018.
Centrica	Yes	The market is expected to implement significant change both from Europe and internally via market changes to GB over the next couple of years, given this, we consider than any changes should be given a chance to bed in, before appropriate analysis is undertaken to decide whether further reform is appropriate.
UK Power Reserve	No	This would depend on the changes but we do not believe there should be a blanket exclusion of further changes pending 2018.
E.ON	Yes	Firstly, the claim that EBSCR changes have been long-signalled and consequently parties should be prepared for them is only partially accurate. Until a decision is made parties may explore the implications but have no certainty as to what change(s) they must prepare for. (After all, following two years of work on Electricity Balancing with indications that prices would be made 'more marginal', in May 2014 Ofgem directed P304 to be raised for a step to PAR 250MWh in winter 2014-15. However five months later, on the cusp of implementation the Authority rejected both P304 and the related P314 proposal for PAR 350MWh, after consultation highlighted problems that could be caused by pushing such changes through with little lead-time and under the existing dual-pricing regime). For changes drafted by Ofgem in July 2013, directed in May 2014 – which P305 Proposed

Respondent	Response	Rationale
		remains – to be appropriate in November 2018, is far from certain and we do not believe it helpful to decree such changes so far in advance. A long lead time for any change raises the risk that other developments in the energy market or wider environment might undermine the suitability of that change when the time comes. Aside from general discomfort with the notion of pushing a modification through determining that changes (and some elements of which, yet to be confirmed), should be implemented over 3 years from now, there are substantial reasons not to push ahead prematurely with attempting to decide future change. The industry is having to cope with many changes at present, such as the work required to implement P272. In particular, various measures have recently been established to attempt to improve liquidity and incentivise existing plant to remain available. In practice the Capacity Market is the measure that will provide the necessary support to maintain the required level of generation capacity, while the additional precautions of DSBR and SBR can supply further flexibility when required. However the full impact of all of these changes will not be known for some time, and more difficult to assess, the more interventions are put in place. To implement the EBSCR proposals through P305 would impose unneeded change that would further complicate matters. P305 is not necessary to incentivise investment. In our view it would actually have the opposite effect, as the unreliability and increased volatility of imbalance prices to be paid or received would be a risk, not a bankable income. The idea that higher imbalance charges would better value flexibility also does not seem to acknowledge the distinction between technical flexibility and contracted obligations. Technically flexible assets in theory could come on or ramp up at short notice, potentially in response to a reliable indicative LOLP, but if such assets were already contracted that would not be possible. Only uncontracted plant could potentially benefit from very short-term price signals; the fact that these are not predictable makes that an unattractive approach. While the level of change to trading arrangements seems greater than ever, companies such as Centrica and E.ON have also recently announced major changes to their business models which will

Respondent	Response	Rationale
		see a less vertically-integrated market in future. Such developments are in addition to the expected change in the GB generation mix. Growth in intermittent generation includes solar as well as wind, the very assets that may be most vulnerable to incurring excessively high cashout costs under a marginal imbalance pricing regime. There is a risk that further investment in such renewables could be deterred by increasing the unmanageable risk of volatile cashout prices to these generators. Such a fear factor could impact future investments, seeing a rising cost of capital. This would not be an efficient outcome. Additionally there are considerable political uncertainties, with a general election pending and opposition parties suggesting radical energy policies while referendums are planned questioning continued UK membership of the European Union. In the absence of a radical change/withdrawal of the UK, the European Commission has only just announced its Energy Union plans that include bringing forward a new market design as soon as possible, with various legislative proposals to be adopted in the next two years to achieve full market integration. However, even if we remain in the EU, until European Network Codes and any other such regulations are finalised, it is unclear whether or not significant changes to current GB balancing arrangements might or might not be necessary to comply with future European legislation. On some matters current Code drafts suggest that a fair degree of national interpretation may be allowed, hence it risks being inefficient and counterproductive to make changes in anticipation of potential EU-directed changes that may not be relevant or do not transpire as expected. If P305 were implemented parties could see significant changes to trading arrangements followed by further upheaval when relevant EU laws enter into force, with the risk that this might include alterations to some measures put in place by P305 in 2015-2018. To enact major changes in GB unnecessarily when amendments or more distinct changes might need making in a few years when exact EU requirements become known would expose parties to further instability. This is not helpful for existing or encouraging new market participants. Maintaining stable arrangements in GB until it is clear what might or might not be required to comply with European law would seem a more

Respondent	Response	Rationale
		prudent course of action. We believe that it would also be prudent to assess the impact of any changes made in 2015 before determining whether or not further changes should be made in the context of the asset mix/market/regulatory/national and wider political environment that exists from 2018. Though if there is indeed an intention to review matters, as Ofgem have verbally assured Workgroups, though not formally confirmed is planned for 2017, why attempt to decide subsequent reforms now? The prospect of a review would raise anticipations that any changes planned several years earlier might well be adjusted anyway. It could give parties more reassurance to know that existing arrangements would be evaluated and appropriate adjustments made than to attempt to schedule future changes that might require unwinding for an energy market that may be quite different.
Stark Software International Ltd	-	No view
Utilita	Yes	We believe that both P305 and P305 Alternate should be rejected on that grounds that not only would they not better facilitate the applicable BSC objectives, but that they would be detrimental to those objectives. We have suggested two possible options that could be considered that we believe would both better facilitate the applicable BSC objectives. However, we strongly favour the approach of implementing changes individually to ensure impacts can be fully assessed and benefits measured. Our favoured option is to introduce a single cashout price as an individual change. We further note that any subsequent change should be the subject of a separate modification and analysis. We still hold this view and that future change should not be hardwired into the BSC on this basis.

Question 7: Do you agree with the Transmission Company that there are no consequential changes necessary to the Grid Code in response to P305?

Summary

Yes	No	Neutral/No Comment	Other
20	1	11	0

Responses

Respondent	Response	Rationale
Western Power Distribution	No comment	-
IMServ Europe	N/A	We have no view on this aspect
GDF SUEZ UK-Turkey	No	A method to accurately measure Voltage Reduction is needed if VR is to be included in the cashout calculation.
SmartestEnergy	No comment	-
VPI Immingham	Yes	-
Spark Energy	-	No comment
InterGen	Yes	-
MPF Operations Limited	Yes	-
Co-Operative Energy	Yes	We agree that no consequential changes to the Grid Code would be required as a result of implementation.
Electricity North West Limited	Yes	We agree with the view of the Transmission Company.
First Utility Limited	Yes	-
TMA Data Management Ltd	No comment	-
RWE Supply and Trading GmbH	Yes	-
EDF Energy	Yes	We do not believe that this modification necessitates any consequential changes to the Grid Code.
Green Frog Power	Yes	-
Flow Energy	Yes	Yes

Respondent	Response	Rationale
DONG Energy	Yes	DONG Energy agrees with the Transmission Company that there are no consequential changes necessary to the Grid Code in response to P305.
Drax Power Limited	Yes	We believe the Transmission Company is correct.
SSE plc	Yes	-
RenewableUK	-	No opinion
Total Gas & Power Limited	Yes	The P305 Proposed and Alternative Modifications do not appear to carry anything that would require a consequential change to the Grid Code.
National Grid	Yes	Having reviewed the legal text revisions to the BSC and the requirements on the Transmission Company for the provision of information in the event of a demand control event, we do not consider a change to the Operating Code 6 (OC6) of the Grid Code to be required. The additional requirements for P305 are detailed under the new Section Q6.9 of the BSC, this captures the data requirements from the Transmission Company and does not impact any activities under OC6 therefore no consequential changes have been identified.
Vattenfall	-	-
ScottishPower	-	We have not been able to form an opinion on whether consequential changes to the Grid Code would be required.
Cornwall Energy	Yes	We are not aware of any consequential changes.
Eggborough Power Ltd	Yes	-
Good Energy	-	We do not have a view on this.
Centrica	Yes	-
UK Power Reserve	Yes	We are in agreement.
E.ON	Yes	We accept NGET's reasoning that no change to Section OC6 of the Grid Code would be required.
Stark Software International Ltd	-	No view
Utilita	N/A	NO ANSWER PROVIDED

Question 8: Do you have any further comments on P305?

Summary

Yes	No
13	19

Responses

Respondent	Response	Rationale
Western Power Distribution	No	-
IMServ Europe	Yes	We are extremely disappointed that all the questions we posed in our previous response remain unanswered and unacknowledged. We are also disappointed that the BSC subsidiary documents have not been published. This lack of detail and a potentially short implementation period make it unlikely that this Service can be delivered by all Parties in the proposed timescales.
GDF SUEZ UK-Turkey	Yes	We note that the CMA is sceptical about the Reserve Scarcity Pricing element of Ofgem's proposed package for P305.
SmartestEnergy	No	-
VPI Immingham	Yes	We are disappointed to see ongoing watering down of the proposed modifications and now the potential outcome of certain aspects of the P305 not being implemented. Whilst P316, if implemented will deliver some of the changes, the more extensive changes that will also improve market signals look like they may no longer be delivered.
Spark Energy	No	-
InterGen	No	-
MPF Operations Limited	No	-
Co-Operative Energy	No	-
Electricity North West Limited	Yes	We have stated in our previous responses that as a Distributor we would have liked to see a cost benefit analysis undertaken to compare the 'bottom up' approach to that of the 'top down' approach in determining the best approach to adopt.

Respondent	Response	Rationale
		We also advised that SMRS is a registration system and would not hold time of day information; consequently a change would be required to ensure the data could be captured on the system. This would incur stranded costs on a system that is to be replaced by the centralised registration system (in circa. 2019).
First Utility Limited	No	-
TMA Data Management Ltd	Yes	We understand and support the aim of making the market more flexible but would like to see individual modifications put forward so that the merit of each aspect of the proposed changes in P305 and its alternative can be assessed individually.
RWE Supply and Trading GmbH	No	-
EDF Energy	No	-
Green Frog Power	No	-
Flow Energy	Yes	Flow considers that small suppliers will be disproportionately affected by the potential for extreme prices with limited access to the expertise, tools and credit cover required to mitigate these. There is also the concern that the increase in complexity and risk may act as a potential barrier to entry for new small supplier wishing to enter the market.
DONG Energy	No	-
Drax Power Limited	Yes	If the Authority is minded to make a change to the imbalance arrangements, we consider that it should approve P316 Alternative. Our reasons for this are provided in our response to the P316 Report Phase Consultation.
SSE plc	No	-
RenewableUK	No	-
Total Gas & Power Limited	No	-
National Grid	No	-
Vattenfall	No	-
ScottishPower	No	-
Cornwall Energy	Yes	The changes proposed to be introduced under P305 are extremely significant to the operation of the

Respondent	Response	Rationale
		market. However, we are not yet in a position - two and half years after the start of the Electricity Balancing Significant Code Review was launched - where a package of proposals set out can be implemented that robustly address the recurring concerns about cash-out. In particular we do not know what the prices will be under a fully marginal price regime and when they will occur. We do not know how suppliers can react to prices that can rise to £6,000. As we stated above, it needs to be demonstrated that £3,000/MWh or £6,000/MWh encourages behaviour more appropriately than £500/MWh considering the risk this could place on a smaller business in a market with high levels of forecast error. It is not clear that suppliers have adequate tools to respond to extreme prices, through having adequate information or through their ability to manage demand. Such technologies are only now becoming available and the control infrastructure cannot yet settle the large majority of meters on a half-hourly basis. We think in particular that changes to Gate Closure and trading notification timescales need to be further examined as part of the package of changes to enable suppliers to better able to respond. There should be a closer examination of options available to Balancing Responsible Parties in other markets where scarcity pricing exists.
Eggborough Power Ltd	No	-
Good Energy	Yes	It is proposed that under the 'static' LoLP function forecasts of the applicable de-rated margin would be published on BMRS and parties would then need to apply the current formula to convert the forecast margin to an indicative LoLP. We would prefer the indicative LoLP to be published on BMRS, in addition to the forecast de-rated margin on which it was based, so it can be accessed by all parties simply and unambiguously from a common source, whilst simultaneously providing transparency regarding the underlying data.
Centrica	No	-
UK Power Reserve	Yes	UK Power Reserve believes that a PAR value of 1 should be achieved as rapidly as possible alongside the introduction of single pricing, a phased

Respondent	Response	Rationale
		approach would delay the best solution being implemented. We also believe that a delayed or phased approach would not benefit either parties or end consumers in providing time for adaption as the market conditions and behavioural reactions of each PAR level would be sufficiently unique to make them irrelevant for the desired end condition of PAR 1. Our concern is that a phased reduction of PAR does not provide the signals required to the market for encouraging behavioural change and encouraging investment and that is does not best meet the BSC objectives to delay the reduction of PAR to 1. It would also pose contractual issues in that agreements would likely cover periods of multiple PAR levels whereas a timelier drop to PAR 1 would permit a single changeover point.
E.ON	Yes	We would reiterate our concerns regarding the SCR process and resulting apparent limitations on the progress of modification proposals raised in accordance with directions and to a timeline set by the Authority. Frequent repetitions by Ofgem of their commitment to implement the package have also raised concerns about the value of the process. (For instance, the consultation references CM bidders being advised by Ofgem to anticipate the full implementation of P305 by 2018). The CMA noted in their Updated Issues Statement theory of harm 5 that the SCR process does not appear to have shortened code governance timescales. Indeed the P305 Proposed solution now in March 2015 is little changed from Ofgem's draft decision in July 2013, prior to the SCR-directed modification being raised in May 2014. Ofgem's 'Statement on our commitment to the EBSCR reforms' of 28 Oct 2014 could not have stated more clearly their determination to implement the package of measures decided upon in their Final Policy Decision of 15 May 2014. Indeed throughout the Workgroup stage, Ofgem's representatives frequently reiterated their commitment to implement the 'EBSCR package' in November 2015. While minor changes to P305 Proposed have been made, it is essentially as decreed by Ofgem in 2013 (and indeed suggested in the initial EBSCR consultation of Aug 2012). However, our perception is that comprehensive

Respondent	Response	Rationale
		development and further industry assessment of the modification since it was raised last May has been hampered by the SCR timetable. This may be owing partly to Ofgem's decision to progress their desired changes as a package through the one complex P305 modification proposal, in combination with the BSC's current restriction to one Alternative proposal only. The Terms of the Direction to National Grid included that the specific proposals put forward by NGET should intend to facilitate not preclude further consideration of the relevant issues and/or development of the Proposal in a way to better meet its objectives. However combined with the draft Business Rules which set the intended solution out in some detail, there seemed little scope for the Proposer to adjust the Proposed solution, while the Workgroup's ability to develop alternative solutions to a proposal comprising several different elements were clearly limited when only allowed to progress one. Pressure to deliver a Panel recommendation to Ofgem in early 2015 in order to implement their package as intended for winter 2015 then meant that the timetable could not be extended long enough to allow e.g. a method for estimating the total volume affected by a Voltage Reduction event to be developed for use in the bottom-up estimate of Demand Control volume. Similarly, it has been suggested that a separate BSC Issues Group may be raised to further LOLP development, while the Workgroup had to decide an Alternative and vote on the Proposed and Alternative solutions without having access to some historical analysis that it had requested. Historical scenario analysis that was released, only utilised a VoLL of £3,000/MWh, and owing to no Demand Disconnections occurring Feb10-May14, only modelled 15 of 20 scenarios requested, and with the 5 including RSP only based on Jan-Nov13. (Although in 2012, figures were produced for 2010-12 using £6,000/MWh, that seemed to provide a truer indication of the potential extreme volatility that VoLL might have given). While there are mixed views on the usefulness of historical analysis as it cannot model behaviour change, it is useful in demonstrating the potential impacts if behaviours did not change. It is unfortunate that the timetable meant that on more than one occasion, National Grid and Elexon were under such pressure that LOLP work in progress had to be presented in the Workgroup, allowing limited

Respondent	Response	Rationale
		time for consideration, and the historical analysis for the Assessment consultation was only available several days after that consultation issued in December. A few more weeks would have allowed a more considered evaluation of this work, while if possible projections might have also helped to provide a clearer picture of the potential impacts on credit cover requirements. In the Workgroups, Ofgem's representative did confirm the intention to undertake a review in 2017. If P305 Proposed or Alternative is implemented, we look forward to seeing this, although enough time would have to be allowed to enable modification(s) to be progressed to change arrangements from 2018 if this was then judged desirable. It is essential that a post-implementation evaluation of the impact of any such significant changes is attempted, difficult though it may be to separate out the effects on the market of multiple measures, both within and beyond P305.
Stark Software International Ltd	Yes	Only to reiterate the need (also stressed in our previous consultation response) to improve liaison between MRA, Elexon and Agents. The Agent 'SAF' meeting held at Elexon was an excellent vehicle that was used to smooth the way for significant changes of this type and provide valuable 'heads up' and feedback for overall improvement at a much earlier stage.
Utilita	Yes	Our views remain as above and in our submissions to this report phase consultation, the appended assessment phase consultation and the equivalent documents for P316.