



CHEMICAL INDUSTRIES
ASSOCIATION

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Dear Sonia,

BSC Modification Proposal P194 "Revised Derivation of the Main Energy Imbalance Price"

The CIA welcomes the opportunity to comment on this proposal. Unfortunately, we do not support the implementation of P194. CIA believes that this proposal will result in increased costs to suppliers that will be passed on to consumers. We do not believe that there will be a benefit to security of supply as cash-out prices only impact the front of the forward curve and not five to ten years out. Furthermore, we are concerned that this may lead to fewer independent suppliers in the market.

A marginal cash-out regime will impact on bid and offer prices in the balancing mechanism, and this will have an impact on National Grid's (NG) costs of balancing the system. Ofgem believe that this will tend to promote efficient behaviour and reduce the total costs of balancing the system, however, we do not believe that this case has been proven.

We agree that a more marginal regime would give signals about the costs of energy imbalances, and market participants may have stronger incentives to balance their own positions. However, this is only true for times of system stress when the marginal price deviates away from the average price, so we are unsure if market participants would devote more resource to balancing under the proposed regime.

Ofgem has identified in its impact assessment that large vertically integrated electricity suppliers are those best able to balance, and so this modification will mainly impact on the small independent suppliers. We believe that this proposal could be a barrier to entry and be detrimental to competition.

The CIA is concerned that one potential consequence of a more marginal cash out could be that generators would self insure by holding back some output for use at short notice, and as noted by Ofgem that any rise in part-loading of plant could have adverse environmental consequences.

A more marginal regime may encourage suppliers to contract with sites for demand side response. However, chemical sites may not have the flexibility as a site may need a constant source of electricity, the situation is different for gas as some sites have back-up fuel capabilities.

Ofgem are concerned that NG's contracts for reserve have a dampening effect on cash out prices. However, if the system becomes more balanced then Ofgem state that more reserve will be required so will this have even more of a dampening impact. CIA believes that increased costs of reserve will result from this proposal.



CIA members are committed to Responsible Care

Kind regards,

A handwritten signature in black ink, reading "Helen Bray". The signature is written in a cursive, flowing style with a large, prominent 'H' and a stylized 'B'.

Helen Bray
Utilities Policy Manager