



Sonia Brown  
Director, Wholesale Markets  
Office of Gas and Electricity Markets  
9 Millbank  
London  
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22<sup>nd</sup> February 2006

Dear Ms Brown

BSC Modification P194 'Revised Derivation of the Main Energy Imbalance Price' – Impact Assessment

We appreciate the opportunity to respond to your Impact Assessment consultation on Modification P194.

E4B has no objection to this response being published.

E4B is a new start supply business which is fully operational, and is currently in a commercial testing phase. We are currently negotiating wholesale energy purchase agreements.

It appears to us that P194 is intended to increase the volatility of imbalance prices and also to increase the spread between system buy and sell prices.

The increase in imbalance price volatility will no doubt feed through into increased electricity contract prices. This price increase in itself will only be painful if it is not reflected in an equivalent increase in customer prices. Given that the large vertically integrated portfolio players will internalise the effects of this volatility, their prices to customers are likely to increase less.

Predictability of a supplier's demand depends upon two things: 1) the size of its customer demand portfolio, and 2) its customer demand track record. A new supplier such as ourselves will be disadvantaged on both these counts vis-à-vis the incumbents. The cost of this disadvantage is directly driven by the spread between the two imbalance prices. This modification, in increasing this spread, increases the advantage incumbents have over new entrant suppliers. Hence it clearly works against competition.

Purchasing half-hourly energy contracts to meet our best estimates of demand is not possible until we reach a significant size because there is insufficient liquidity in spot



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markets that are consequently too granular. Even then the fixed costs will be a significant overhead. Our choices of who to purchase from are severely limited and whoever our immediate counterparty is, the half-hourly shape and peaking capability will almost certainly need to be purchased, directly or indirectly, from the large vertically integrated portfolio players.

The other alternative for us is to purchase less shaped energy, which will require us to spill excessively over non-peak periods (although we certainly would not anticipate purchasing extra for the peak itself). Although this is a common strategy, our rate of spill (per kWh sold to customers) will inevitably be larger than that of our larger competitors, putting us at a commercial disadvantage.

Given the extreme volatility in prices over this winter which has driven almost all small suppliers to the wall it is hard to understand why a modification to give us more volatility is needed. It is also hard to view it as anything other than damaging to competition in supply.

Yours Sincerely,

Jim Inglis  
Director



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