

# GRANGEMOUTH CHP LIMITED

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Dear Sonia

## **P194 IMPACT ASSESSMENT**

I am writing in response to the P194 Impact Assessment consultation paper (the "IA"). Fortum is an international energy company which operates and invests in electricity generation plant throughout the world and is the ultimate parent company of Grangemouth CHP Limited. I would like to set out some observations on the proposed BSC modification, from the perspective of a potential investor in the UK market.

- The modification is founded on the selection of an arbitrary 100 MWh threshold figure. Whilst under present circumstances this might result in theoretical estimates of imbalance market behaviour that appear desirable, making a modification of this type would be a severely retrograde step in terms of future confidence in the way that the GB market arrangements might be allowed to develop. This type of development would be a deterrent to potential future investors. The assertions made in, for example, 3.46 and 3.51 of the IA are incorrect and not logical.
- The IA provides a valuable initial discussion of the issues raised by the modification proposal. However, it is apparent throughout the report that the analysis which has been conducted to date has been against a tight timetable (1.9, 1.10, 1.11 of the IA) and its coverage has been somewhat limited (for example 4.25 of the IA). The conclusions set out in the IA are couched in highly speculative terms (for example IA 4.112, 5.4). I am concerned that such a fundamental change of the principles underlying the BM is being considered in light of such a speculative assessment. Furthermore, with the degree of uncertainty that has been identified as to the possible knock-on effects of changes, I am of the opinion that these would require to be more carefully investigated and approval of the proposed modification would be a

rash step. I am also concerned that the investigation of the implications of the modification are being constrained by the acceptance by Ofgem of a target implementation date of winter 2006 when such a target is not in fact justified.

- The IA does bring together much that is valuable in setting out the basis of the concerns which NGET hold and are seeking to address via P194. However, rather than seek to adopt a "big-bang" solution that relies on the adoption of arbitrary volume thresholds - with all the detrimental impact on market and investment confidence, and the risk of unintended consequences such as scope for gaming - I would wish to see a more comprehensive package of measures brought forward to address the various information and behavioural issues which may currently be affecting the spread between average and marginal imbalance prices. Such a package of measures, which would be consistent with a properly functioning market, would not be possible if P194 is implemented first.

I would be happy to expand on these observations should that prove to be of assistance to you.

Yours sincerely

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