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17/06: BSC Modification proposal P194 'Revised Derivation of the Main Energy Imbalance Price'

Dear Sonia,

Thank you for the opportunity to respond to this consultation.

We believe it is very difficult for Ofgem to demonstrate objectivity with regard to this issue given the comments made during the determination of BSC Mods P136 & P137.

At the time, Ofgem concluded that a fully marginal imbalance price was not considered to further the BSC Applicable Objectives as it 'could increase the risk of manipulation' and 'lead to prices at levels that would not reflect underlying market fundamentals particularly when the system is under stress'. The expression of such views by the Authority inevitably led to a proposal such as P194.

Our view is that imbalance prices should rise at times when the market is tight to reflect scarcity. Prices should, therefore, be marginal and reflect the value of the energy to the market rather than costs; subject to the safeguards provided by the licensing regime and general competition law.

We agree that current BM prices are neither sending the appropriate signals to the market at times of system stress nor creating the appropriate commercial incentives. However, as the impact assessment notes, a number of factors, in particular NGET's use of reserve and the current tagging methodology are dampening cash out prices. We believe that resolution of these issues is more likely to lead to better cash out signals than those proposed under P194 and permit a more robust marginal pricing mechanism to be introduced.

Our main concern with P194 is the arbitrary nature of the 100MWh figure. The proposer argues that the volume is a trade off between deriving appropriate prices at time of shortage but not unduly influencing prices at other times. It is difficult to see how such a subjective approach can be considered to further the BSC Applicable Objectives.

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If you wish to discuss any of the issues raised in our response, please do not hesitate to contact me.

Yours sincerely

Terry Ballard
Economic Regulation