ScottishPower
energy management

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Dear Sonia,

BSC modification proposal P194 'Revised Derivation of the Main Energy Imbalance Price'

Impact Assessment
January 2006

Thank you for the opportunity to respond to this Impact Assessment. This response is submitted on behalf of the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

Ofgem recognises that its assessment is finely balanced and acknowledges that meaningful quantification has not been possible for many of the criteria assessed. The estimated benefits are however entirely based on the assumption that the increased balancing costs per unit faced by market players on implementation of P194 will incentivise them to be more fully contracted and thus reduce the size of the imbalance volumes to such an extent that total balancing costs are reduced bringing benefits to customers through overall lower costs.

The Impact Assessment fails to provide any convincing evidence that market participants will become more fully contracted and certainly does not produce sufficient evidence to suggest that the extent to which participants become more fully contracted will be sufficient to counter the increased unitary balancing costs resulting from the implementation of P194.

The Impact Assessment does not give due weight to suppliers who are unable to take short term actions to balance their positions in light of sharper price signals and also of intermittent renewable generators whose plant is self dispatch.

Ofgem's analysis estimates that the cash out price increases resulting from P194 will be close to those that would have resulted from the implementation of full marginal pricing. This is not surprising given that on some occasions there has only been one BMU in the top 100 MWh of the stack and that typically only 3-4 BMUs cover the top 100 MWh. Given that Ofgem previously rejected full marginal pricing, one reason being that demand in particular cannot necessarily respond to price signals in the short term, it would be inconsistent now to support a modification which would have a similar impact.

P194 does not encourage capacity to be made available at times of system stress and will increase the risk that less reliable plant will not be made available at all due to the potentially damaging imbalance charges associated with unexpected plant failures. The Impact Assessment recognises this effect as a short term possibility but appears to imply that this will be offset in the long term by generators investing in such plant to make it more reliable. However the impact assessment fails to recognise that such generators would need to increase the price at which they are willing to sell electricity to National Grid in order to recover the investment. This would have the effect of increasing imbalance charges.

Cost reflective energy imbalance prices are generally more extreme than forward prices and so we feel that the current baseline provides sufficient incentive for parties to manage their risk by balancing their position ahead of time. It is the asymmetric property of imbalance prices that may lead to parties taking a long position into the balancing market as due to the possibility of unexpected plant failures there is always a higher risk of extreme system buy prices than extreme sell prices.

There are insufficient grounds for Ofgem to go against the views of the Balancing and Settlement Code Panel and 80% of respondents to Elexon's assessment consultation.

I hope you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

Alex MacKinnon
Regulation and Trading Arrangements Manager