

Revised Calculation of System Buy Price and System Sell Price

Attachment 1: Proposed Method for Setting Imbalance Prices

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The intent of the modification is to set the main imbalance cash out price equal to the marginal energy offer or bid accepted to meet a system imbalance. For these purposes, no distinction would be made between offers and bids accepted in the balancing mechanism and balancing services actions taken before gate closure by NGC. There would be no changes to the operation of the Balancing Mechanism and, in particular, balancing actions would continue to be paid at the respective offer or bid prices. The current P78 mechanism would also be retained with the main price being calculated on a marginal basis and the reverse price calculated – as now – from market index data. The existing tagging methodology would also be retained, but with the addition of tagging for offsetting bid and offer acceptances on individual BMUs and for forward energy trades which offset the net system imbalance. We envisage that this would be achieved by the following steps in the calculation of imbalance prices;

- Consolidated offer and bid stacks will be compiled from all:
 - BM acceptances;
 - pre-gate closure acceptances on individual BMUs;
 - pre-gate closure energy purchases and sales (ie, non-BMU specific energy trades including system-to-system trades)
 - non-BM balancing service acceptances (eg, standing reserve provided from demand-side sources)

(This requires NGC to report BSAD on a disaggregated basis so that acceptances on individual BMUs, non-BMUs and forward energy trades are all identified separately.)
- The consolidated stack would include energy volumes accepted from pre-contracted reserves (including standing reserve), but the price attached to those acceptances would be calculated as the “effective cost” of the reserve (which includes the reserve option fees) rather than the utilisation price of those reserves accepted in the BM. (The paper “Promoting Efficiency and Security in the NETA Pricing Arrangements”, Barclays Capital, July 2003 provides further details on how the effective cost might be calculated.)
- The volume and associated effective cost of pre-contracted reserve (including standing reserve) from non-BMU sources would be added into the appropriate bid or offer stack.
- NGC would continue to flag PGBT trades for system reasons to ensure that the prices of these actions are not included in the determination of energy cash-out prices (although the volumes would still feature in NIV tagging process as at present)
- The CADL rules will apply as at present to remove any short-duration acceptances from setting prices (although the volumes would still feature in the NIV tagging process as at present)
- De minimis tagging will apply as now to remove small volume acceptances from the stack
- Arbitrage tagging will apply as now to remove arbitrage bids and offers from the stacks
- Offsetting bid and offer acceptances (whether those acceptances are before or after gate closure) on the same BMU would be tagged out of the stacks. When the volume of offer acceptances exceeds the volume of bid acceptances on a BMU, the lowest priced offers would be removed up to the volume of the bid acceptances (which would also be removed) and vice versa. The intent is to ensure that offsetting “undo” acceptance volumes on the same BMU do not contribute to the NIV tagging process.

- Forward energy trades (ie, trades not specific to a specific BMU or non-BMU source) in the reverse stack would be tagged out and a volume equal to these forward energy trades would be tagged out of the main stack (ie, the lowest price acceptances if the offer stack is the main stack or the highest price bids if the bid stack is the main stack).
- NIV tagging would be applied – as now – to tag out the remainder of the reverse stack and with the volume remaining in the reverse stack (after the previous tagging operations) being used to tag out the highest priced offers (or lowest price bids) from the main stack.
- When the system is long, SSP would then be set equal to the minimum untagged bid acceptance and SBP would be calculated from the market index data.
- When the system is short, SBP would be set equal to the maximum untagged offer acceptance and SSP would be calculated from the market index data.
- As now, if NIV equals zero, SBP and SSP would be calculated from the market index data.