



Consultation Response

By email to EBSCR@ofgem.gov.uk

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ELEXON's response to Ofgem's consultation on the Electricity Balancing Significant Code Review Draft Policy Decision Impact Assessment

We welcome the opportunity to provide ELEXON Limited's views on the Electricity Balancing Significant Code Review (EBSCR) draft policy decisions. ELEXON as the Balancing and Settlement Code (BSC) Company for Great Britain is responsible for the proper, effective and efficient delivery of the BSC. The EBSCR final policy decisions will potentially result in significant Modifications to the BSC.

The views expressed in this response are those of ELEXON Limited alone, and do not seek to represent those of the Parties to the Balancing and Settlement Code. Our response does not seek to favour any particular implementation option – we have limited our response to matters of practicality and advice rather than policy. For that reason we have not responded to all the questions in the consultation.

Question for the Draft Policy Decision:

Question 1: Do you agree with our proposal to make cash-out prices more marginal?

We have no view on whether imbalance prices should be more marginal and it would not be appropriate for us to have a view on this, but we have some observations on possible consequential impacts on BSC operations.

More marginal prices are expected to increase the volatility of cash-out prices and in turn trading charges that are payable under the BSC. The impact is dependent on the BSC Parties' behaviour and accuracy of its forecasting.

More volatile prices can result in additional Credit Cover needing to be lodged under the BSC to cover peaks in imbalance charges which occur in the 29 days between delivery and settlement. However, there is a lag of five working days before a price spike has any impact on credit requirements as the BSC arrangements use a proxy for the cash-out prices initially. The Credit Assessment Price (CAP) is used as a proxy for an average MWh of energy. This is applied for the first five working days in the credit calculation until the Interim Information (II) Run data is available. BSC Parties can monitor prices on www.bmreports.com to predict the impact on their credit position.

The CAP is currently set by the Credit Committee, the CAP is reviewed when forward prices are outside a set tolerance of the current CAP. With more volatile and potentially higher prices on average, the CAP setting process would need to be reviewed to ensure that the CAP accurately reflects an average MWh of electricity.



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In discussing the marginal price, we reiterate the comments from Ofgem that the price will not necessarily reflect the most expensive Bid or Offer Acceptance (BOA). The existing BSC flagging and tagging rules will continue under the proposed draft policy decision and the highest priced actions are often not included in the final price stack. This is important to note particularly for other policy decisions on VoLL.

As noted in the consultation document, both PAR and RPAR are parameters in the central systems with minimal effort required to change the values in the systems. However, the parameter values are specified in the BSC and will require a BSC Modification to change them.

A suggestion was raised at the stakeholder workshop to phase the implementation of marginal prices. If this were to be adopted, parameters for PAR and RPAR could be specified by the BSC Panel following review, consultation and Authority decisions over a period of time until PAR 1 and RPAR 1 are reached.

Question 2: Do you agree with our rationale for going to PAR1 rather than PAR50? Are you concerned with potential flagging errors, and would you welcome introduction of a process to address them ex-post?

As discussed above, if there are concerns about the performance of PAR 1MWh over PAR 50MWh the PAR value could be set as a parameter without a "hard-coded" value in the BSC itself but rather with its value subject to review in a similar way to the Market Index Definition Statement (MIDS) by the BSC Panel and the Authority. Ofgem may wish to specify a maximum and minimum PAR value in the BSC, for example, between 1MWh and 50MWh. ELEXON could review scenarios and present analysis for industry consultation, BSC Panel decision and Authority approval before any change.

Change Proposal CP1400 has been raised by National Grid and proposes that BSC Procedure BSCP18 and the associated BSC systems are amended to allow National Grid to change the System Operator-Flagged field for incorrectly flagged actions. We welcome the change to ensure that accurate cash-out prices are applied to Settlement, this is particularly important with marginal pricing. We also believe that changes to a flag should be made as early as possible and ideally before the II Settlement Run calculations to avoid unexpected price changes at the first billing run (Settlement Final).

It is also important that the industry has accurate price signals as soon as possible.

- Indicative prices are published on www.bmreports.com within 30 minutes of the end of the Settlement Period.
- The prices are indicative as actual Estimated Transmission Loss Multipliers are applied (actual Transmission Loss Multipliers are not calculated until the Settlement Runs).
- National Grid can amend the Disaggregated Balancing Services Adjustment Actions used in the price stack after the Settlement Date and up to Reconciliation Final (RF) (Disaggregated Balancing Services Adjustment Action changes are infrequent beyond the II Settlement Run).

Question 3: Do you agree with our proposals for pricing of voltage reduction and disconnections, including the staggered approach?

Similar proposals have been made through BSC Modifications P138 "Contingency arrangements in relation to implementation of Demand Control measures pursuant to Grid Code OC6" and P199 "Quantification of Demand Control in the BSC as instructed under OC.6 (c), (d) & (e) of the Grid Code". Full documentation is available on the



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ELEXON website: <http://www.elexon.co.uk/change/modifications/>. The modifications will provide a starting point if the draft policy decision is progressed.

Where a sufficient volume of actions are priced at VoLL, and a VoLL cash-out price occurs, we would expect some BSC Parties Credit Cover requirements to rise significantly, however as discussed above, this would impact credit requirements after five working days. This is likely to trigger Credit Default warnings for multiple BSC Parties, and require additional funds to be lodged for approximately 30 days. This covers the period until the imbalance charges are paid and a 10 calendar waiting period to withdraw Credit Cover.

Question 6: Do you agree with the introduction of the Reserve Scarcity Pricing function and its high-level design? Explain your answer.

ELEXON would expect to publish data on www.bmreports.com for the RSP function, including the input parameters. The timing of publication would be determined by Ofgem's policy decision on when the margins are set.

Ofgem may wish to consider a process similar to the [Market Index Definition Statement](#) when deriving the RSP curves. The MIDS defines a number of principles which are considered when reviewing the performance of the reverse price calculation parameters on an annual basis.

Question 7: Do you agree with our rationale for a move to a single price, and in particular that it could make the system more efficient and help reduce balancing costs? Please explain your answer.

We have no views on the policy decision to move to a single price or whether to retain dual prices, but have some observations on implementation of a single price, if that were adopted.

The single imbalance price effectively provides a single trading account. Similar impacts have been considered in BSC Modification P282 'Allow MVRNs from Production to Consumption or Vice Versa'. Although in this case the volumes will not be netted, the imbalance price paid on one account can equal that received for imbalance on the other for a given Settlement Period. As a result BSC Parties may choose to cancel intra-Party Production Consumption Account balancing ECVNs.

We note that proposals for a single cash-out price may result in the reverse price no longer being required; however we have been asked if ELEXON would continue to report the reverse price for information. The reverse price calculation is defined in the Market Index Definition Statement (MIDS). We have contracts with two Market Index Data Providers to provide data for every Settlement Period according to the calculations specified in the MIDS for which the providers are paid. Ceasing to require the reverse price would result in cost savings, so industry could be consulted on the cost of continuing this process or the power exchanges may choose to publish the information for industry.

If you have any questions with regards to this response please contact me on 020 7380 4311, or by email at roger.harris@elexon.co.uk.

Yours sincerely

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ELEXON Market Design and Analysis
