Issue Form - BSCP40/04	**Issue Number 56** *(mandatory by BSCCo)*

Issue Title *(Mandatory by originator)*

Treatment of the new SBR and DSBR services in the imbalance price

Issue Description *(Mandatory by originator)*

Background

In December 2013 Ofgem published its decision[1] to accept the application by National Grid Electricity Transmission (NGET) to introduce two new balancing services: Supplementary Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR).

Balancing services are used by NGET in its role as System Operator (SO) to balance supply and demand in real time and are used as the basis for the calculation of imbalance prices. SBR provides a means for generators held outside the wholesale market to contribute to balancing the system in winter periods of high demand (as a last resort prior to initiating Demand Control measures). DSBR provides a new facility for the demand side to participate in the balancing services by shifting or shedding demand. SBR and DSBR services may be accessed from winter 2014/15.

The existing arrangements under the Balancing and Settlement Code (BSC) and Standard Condition C16 Statements[2] of NGET's Transmission Licence prevent both SBR and DSBR from feeding into the calculation of the cash-out price. The System Management Action Flagging (SMAF) Methodology Statement classes SBR actions as being 'System Management'. This means that an SO-flag will be applied to the action so that the volume will be classified as a First Stage Flagged balancing action. The action will then become unpriced if it has a more expensive price than the most expensive energy balancing action. The Balancing Services Adjustment Data (BSAD) Methodology Statement excludes the volumes and prices associated with accepted DSBR services from the price stack.

In the DSBR and SBR Reports submitted to Ofgem[3], NGET recognised that a mechanism for factoring SBR and DSBR into imbalance prices is required and that the approach should be aligned and consistent with any reforms determined in the wider Electricity Balancing Significant Code Review (EBSCR)[4]. Nevertheless the treatment of these services in cash-out is not explicitly within the scope of the EBSCR and therefore should be considered separately[5]. In addition, consultation responses from the industry (contained in those reports) reiterated the importance of incorporating the new services into the calculation of imbalance prices to ensure price signals within the market are preserved.

Description of Issue

NGET may procure SBR and DSBR services from winter 2014/15. However, under the current arrangements any utilisation of the new services may only feed a limited price signal into the imbalance price. This is because DSBR will not feed into the imbalance price and the impact of any SBR action is dependent on its price with respect to the most expensive energy action. An Issue Group is required to determine whether a more appropriate solution can be identified and developed for pricing SBR and DSBR into cash-out.

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[1] Ofgem decision letter on new balancing services: https://www.ofgem.gov.uk/ofgem-publications/85278/decisiontoacceptngetapplicationtointroducetwonewbalancingservicesandsubsequentconsultationonfundingarrangements.pdf

[2] Links to all the C16 Methodology Statements (including the System Management Action Flagging and Balancing Services Adjustment Data Methodology Statement) can downloaded from the following site: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/Balancing-framework/Transmission-license-C16-statements/

[3] DSBR Report to Ofgem: http://www.nationalgrid.com/NR/rdonlyres/3F8C2A41-F3D7-4847-9CC2-1788F4ADD16D/63265/DSBRReportFinal181113.pdf
SBR Report to Ofgem: http://www.nationalgrid.com/NR/rdonlyres/28E4E307-45CB-42A1-B1CC-06D0F8F6E7F7/63264/SBRReportFinal181113.pdf

[4] EBSCR: https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-balancing-significant-code-review

[5] Note that this sentence supersedes what is written regarding imbalance treatment in the DSBR Documentation and SBR Documentation published on the National Grid website on 23 April 2014.

Justification for Examining Issue *(Mandatory by originator)*

Both SBR and DSBR provide additional reserves that can be called upon by NGET as System Operator to help balance the system from winter 2014/15. If utilised, the value that these services deliver to correcting the system's imbalance will not be reflected in the cash-out price, effectively dampening the price signal. This is contrary to the intent of the EBSCR as set out in the Draft Policy Decision, and has been recognised by industry in their responses to the SBR and DSBR consultations as an issue which requires addressing. The pricing solutions for feeding SBR and DSBR into cash-out have the potential to result in significantly ranging impacts on the resultant System Buy Price (SBP) (e.g. feeding into the price stack as null-priced potentially up to a Value of Lost Load (VoLL), which would initially be £3000/MWh according to the EBSCR Draft Policy Decision).

Potential Solution(s) *(Optional by originator)*

Identified options for applying prices to SBR and DBSR for incorporation into the price stack include but are not limited to:

- Continuation of existing arrangements in which there is a minimal price feed into cash-out;
- Pricing at the utilisation price for the service;
- Applying the Value of Lost Load (VoLL) equivalent to the cost of Demand Control as outlined in the EBSCR Draft Policy Decision;
- Depending on timing of implementation of any change there may also be the opportunity to price these services using the Reserve Scarcity Pricing (RSP) function outlined in the EBSCR Draft Policy Decision for equivalent pricing treatment to other forms of reserve.

In developing a solution, as well as resolving what pricing signal(s) these services should send to the market, consideration will need to be given to implementation timescales required for any necessary IS changes and whether and how alignment with any other relevant modifications resulting from the EBSCR should be taken into account. As such a phased or staggered approach (e.g. with an interim solution for winter 14/15) may also be considered.