Issue Form - BSCP40/04	Issue Number: 61 *(mandatory by BSCCo)*

Issue Title *(Mandatory by originator)*

Changes to Gate Closure for Energy Contract Volume Notifications

Issue Description *(Mandatory by originator)*

The post-Gate Closure period is designed to allow the System Operator (SO) sufficient time to carry out its balancing function. At the moment of Gate Closure, all Energy Contract Volume Notification (ECVN) and Metered Volume Reallocation Notification (MVRN) submissions become final, along with BM Unit Data submitted in line with BC1 of the Grid Code (e.g. Physical Notifications (PNs)). This was reduced from 3.5 hours at NETA go-live to 1 hour in 2002, in order to permit bilateral contracting to continue as close to real time as possible.

The explicit coupling of the time at which PNs and other parameters relating to the dispatch of plant are locked in, and the time at which ECVNs and MVRNs are locked in is unnecessary, and stifles competition.

An Issue Group is invited to consider:

(a) The feasibility and implications of allowing trading and the submission of ECVNs and MVRNs after the point at which PNs go firm;

(b) The impact on other industry codes and agreements of doing so; and

(c) The compatibility of such a change with draft European Network Codes.

Justification for Examining Issue *(Mandatory by originator)*

With the introduction of a single, marginal cashout price with the potential to rise to very high values in the event of scarcity of supply and the potential to fall to low or negative values in the event of extreme oversupply, there is a clear need to be able to transfer risk between Parties, from willing buyers to willing sellers, at a fair market price. Permitting energy trading to continue past the current definition of Gate Closure up until a point where an indicative cashout price has been published would allow efficient and effective transfer of risk, promoting competition in the sale and purchase of electricity.

Under the pre-P305 'Electricity Balancing Significant Code Review Developments' "dual cashout" trading arrangements, in the prompt market a typical asset-backed energy trader would enter into transactions in order to reduce their Earnings at Risk. Post event, the effectiveness of these hedges can be assessed by looking at the price of the hedge versus the alternative of not hedging and cashing out; and the accuracy of the traders' forecast of their positions. Nearly all factors affecting these points have reducing variance as delivery approaches, with the exception of the reverse price. This is because the Market Index Price (MIP), used to set the reverse price, is "sticky", starts to be set 12 hours prior to Gate Closure and is impacted by two and four hour products.

Under the current arrangements, the main cashout price is a worse option than trading at the

MIP, and once sufficient volume has been traded the MIP is unlikely to vary significantly. Subsequently, a trade executed at or near the MIP is unlikely to be loss-making. In effect, certainty can increase long before delivery with relatively little risk from the Net Imbalance Volume (NIV) reversing and the main price switching from System Buy Price (SBP) to System Sell Price (SSP) or vice versa.

The P305 reforms will increase the need to accurately predict the NIV and the marginal actions taken by the SO, thus the uncertainties of early hedging will likely result in wider bid/offer spreads and lower liquidity. As delivery approaches, greater certainty can be gained over the likely cashout price. This should result in a concentration of liquidity in the run up to market closure. A later final time for ECVN submission would improve this liquidity.

A manner of doing business with identical cashflow effects to this proposal is effectively enabled by a single cashout price, as a financial deal could be struck where the difference between the strike price and the cashout price is passed between the "buyer" and the "seller". These deals would, however, potentially be subject to more onerous regulation as a financial product, and more onerous BSC credit requirements due to increases in imbalance cashflows.

Issue 35 'Timing of Gate Closure and Related Matters', raised six years ago, touched upon this area. The Group was, however, primarily focussed on modifying the timing of Gate Closure for both PNs as well as ECVNs and MVRNs. While the Group expressed concern that ex-post trading might not provide the correct incentives on Parties to manage their trading/imbalance, the approval of P305 by the Authority raises this possibility without a requirement to submit the relevant ECVNs.

The Agency for the Co-operation of Energy Regulators (ACER) recommendation on the Network Code on Energy Balancing of July 2015 states that "The intraday market and balancing market should not take place at the same time in order to avoid a reduction of liquidity in the intraday market". On the face of it, the potential suggestion mooted by this Issue proposal might be precluded by this recommendation. However, the purpose of extending trading beyond the current transition into the balancing market is to *encourage* liquidity in the intraday market.

The risks from not proceeding with this line of enquiry are that a potential source of within-day liquidity may remain untapped, reducing the ability of parties to manage their exposure to imbalance; or that liquidity may be shifted from open and transparent power exchanges to bilateral Contracts for Differences (CfDs).

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

A potential solution would be to introduce the concept of a 'Final Energy Contract Volume Notification Submission Time'. This time would be decoupled from Gate Closure and set to a point in time 30 minutes after the end of the relevant Settlement Period, permitting energy trading to continue until the indicative imbalance price had been set.

Subsequent to this, any references to Gate Closure across Core Industry Documents may be required to be amended to refer to 'Final ECVN Submission Time' if relevant to ECVNs or MVRNs as opposed to physical dispatch of plant.

Proposer's Details

Name: Richard Devenport

Organisation: EDF Energy

Email Address: richard.devenport@edfenergy.com

Telephone Number: 0203 126 2370

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