



P211 – Main Imbalance Price Based On Ex-Post Unconstrained Schedule

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❖ Introduction and Defect

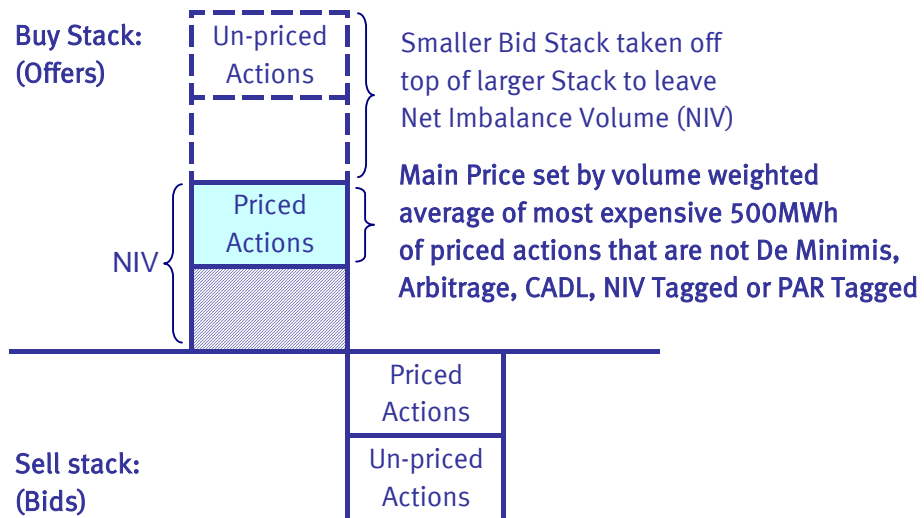
- Ofgem's P205 decision letter stated an intention “to commence a wide-ranging review of cash out arrangements” and this was launched in February 2007
- One of their main target areas are the current rules for removing system actions from imbalance prices (the “tagging” mechanism)
- Imbalance prices under the current rules are not representative of pure energy balancing actions
- This has the effect of making the main imbalance price more penal than a price based on pure energy balancing actions
- It also makes it difficult for parties to forecast the main price with any degree of accuracy

❖ Proposed Solution

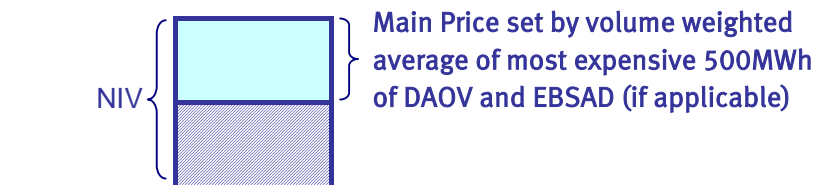
- Our proposal is to base the main imbalance price on actions that National Grid could have utilised on an unconstrained system
- The aim is resolution of the market imbalance (“NIV”) using the cheapest available actions from the EPUS
- This would include reserve contracts (BSAD) where this represented a lower priced option than a deemed available Bid or Offer (“DABV” and “DAOV” respectively)
- PAR Tagging would be retained so that only the most expensive 500 MWh of actions are used to set the main imbalance price

Current Versus Proposed Arrangements (Short Market)

Current Arrangements:

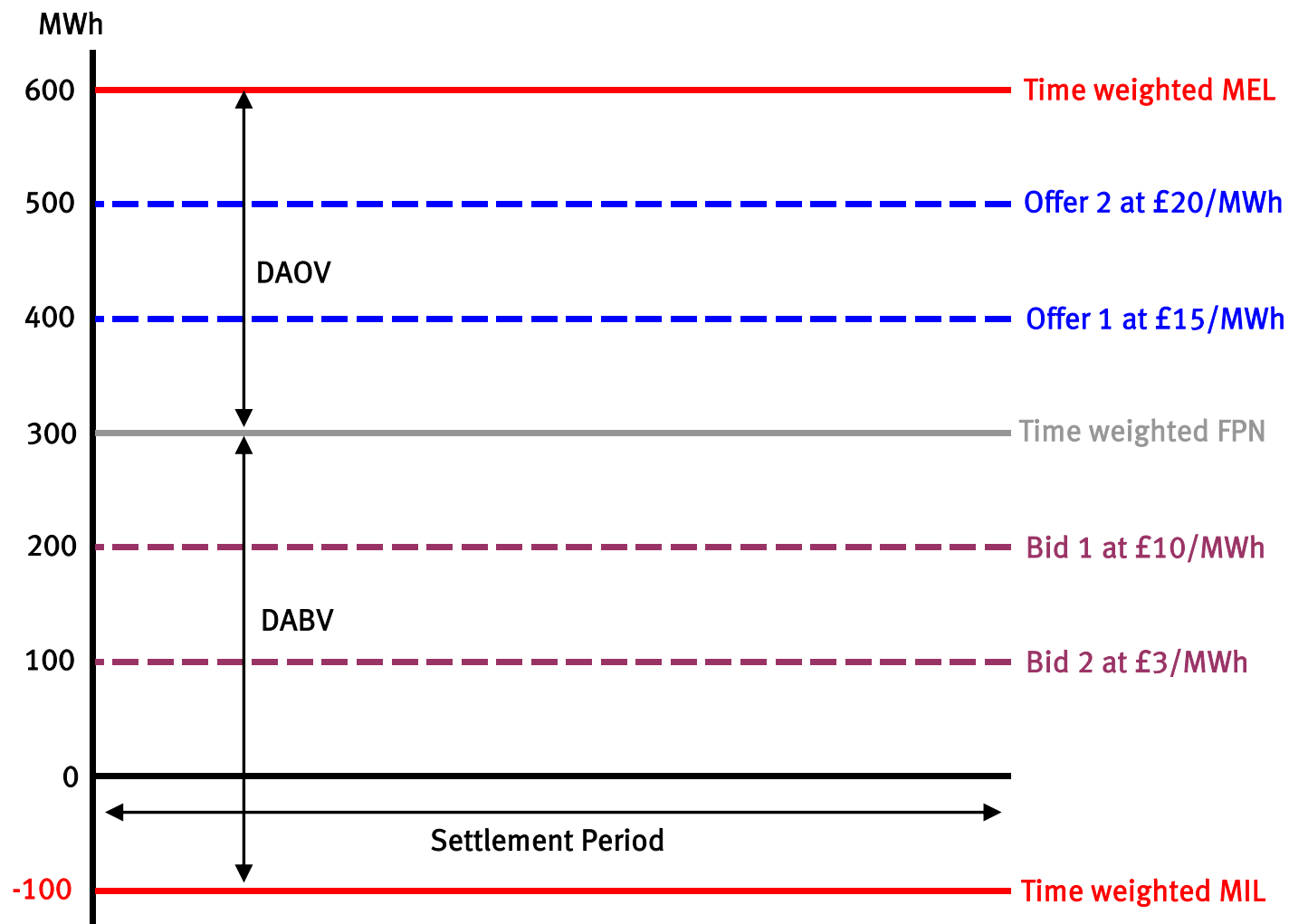


P211 Proposal:



NB: shaded area represents PAR Tagged volume

❖ Derivation of DAOV and DABV



❖ **Avoiding Price Manipulation**

- A number of the parameters used in our calculation are already used in the settlement calculation so manipulation should be no more of an issue than currently
- Parties trying to manipulate prices would be forgoing revenue in the Bid-Offer market
- Price manipulation can only occur where participants submit misleading data which is a breach of Grid Code

❖ Justification Against BSC Objectives

- The proposal will:
 - Reduce the volatility and improve the predictability of the main imbalance price;
 - Remove the impact of imperfections inherent in the current tagging mechanism (thus providing a price based on pure energy);
 - Increase liquidity in the short term market by freeing up volume that plant operators would otherwise have retained to self-hedge;
 - Significantly simplify the BSC arrangements by removing the need for most of the tagging rules
- Therefore will better facilitate applicable BSC Objectives (b), (c) and (d)