

ISSUE 83 MEETING 1

Summary

The Proposer outlined their identified defect and rationale for exploring the issue with how the Buy Price Price Adjustment (BPA) is calculated. They noted uncertainty regarding what Terms and Conditions would be approved under the Electricity Balancing Guidelines (EBGL) and highlighted the assumptions they had made for the purpose of the Issue Group. ELEXON gave an overview of how the BPA is calculated, but noted that its governance sat with the Balancing Service Adjustment Data (BSAD) methodology, outside of the BSC remit.

The Issue Group noted that the largest component of the BPA was Balancing Mechanism (BM) warm up (used to get BM assets in a position where they could be dispatched in usual BM timescales), but that the BSAD methodology also included firm regulating reserve and forward contract option fees. National Grid Electricity System Operator (NGESO) took an action to provide additional clarity on exactly what is included in the BPA, as the BSAD methodology was not specific on this. However, it was questioned whether there would be any additional value in making the BSAD methodology more prescriptive.

The Issue Group discussed the characteristics of spin gen, comparing and contrasting it to BM warm up. Members expressed views that spin gen assets received payment to allow them to quickly deliver energy when needed. This was countered by the argument that spin gen was a commercial contract for dewatered hydro assets to be synchronised with the system. They noted that unlike BM warm up, spin gen did not affect the asset's ability to be instructed within the normal BM timescales. The Issue Group agreed with this, and noted there were many other commercial services used that were not considered for Imbalance Pricing, citing distribution contracts used for localised balancing as an example. There was disagreement over whether paying spin gen providers to synchronise could be described as getting the asset in a usable state, but it was noted that the asset would still be able to deliver in BM timescales without this. One member believed that NGESO categorising spin gen as optional Fast Reserve was misleading as it was not an accurate description.

The Issue Group considered what the intent behind the BPA was. ELEXON highlighted the rationale for [P008 'Introduction Of A Price Adjuster To Reflect Option Fees For Balancing Services Contracts In Setting System Buy Price And System Sell Price'](#), which introduced the BPA was to smooth the effect of availability fees by smearing them across the availability period rather than the utilisation period. It also noted that [P305 'Electricity Balancing Significant Code Review Developments'](#) had removed availability fees associated with Short Term Operating Reserve (STOR) from the BPA, with the rationale that it was not properly reflecting the usage peaks and troughs, resulting in incorrect pricing signals. The Issue Group noted that while the BPA focused on payments for available capacity, the Reserve Scarcity Price (RSP), also introduced by P305, focused on the value of capacity at times of scarcity.

The group considered that the treatment of options fees was central to Issue 83. agreed there where actions were taken for system rather than energy needs, these should not be included. The group noted that there was a risk of misleading price signals if a provider was paid fees over a long period of time, but only delivered a small amount of energy. The rationale for the decision on [P003 'Correction Of Price Spikes Generated By De-Minimis NGC Purchases'](#) implied that the costs of having available capacity should be included in the Imbalance Price, but there would be challenges to differentiate where capacity was available for system or energy needs. The Issue Group requested that NGESO investigate whether more information around needs addressed by spin gen and other products could be made available, noting that details of specific contracts were commercially sensitive. NGESO also agreed to provide the most up to date System Needs and Product Strategy (SNAPS) report.

The Issue Group considered the potential implications of the EBGL and the proposed options to continue allowing availability fees to be reflected. The group considered that proposed option 1 shouldn't be discounted as unworkable, as it believed there were arguments to be made for including a BPA like figure as an incentivising component. The group noted that the GB system was inherently different to European counterparts as it existed on an island giving it unique boundary constraints, meaning that more reserve capacity would be needed to offset the limit on importing energy. NGESO commented that the limit on interconnectors meant that it needed to pay people to be available, and so market signals should reflect that it needed to procure this capacity. It argued that inclusion of the cost of procuring this capacity would send signals to the market that it should ensure that capacity was available through other methods.

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ELEXON noted that the intent of EBGL was for prices to be based on real time market conditions, but that options fees were based on forecast capacity needs. NGESO commented that the Clean Energy Package may require actions to be paid as cleared rather than paid as bid. This could fundamentally change the way capacity was procured and could mean that an asset instructed to warm, but not used, would not be paid for this action. A member commented that there could be a distortion impact, commenting that if an asset was not paid to warm, then it would not have been able to be dispatched and NGESO may have needed to instruct a more expensive action, thus increasing the Imbalance Price

The Issue Group did not think it has sufficient expertise on EU law or the National Regulatory Authority (NRA) decision process, and thought it would be helpful to have a subsequent meeting with the relevant teams from NGESO or Ofgem in attendance. The group commented that providing a detailed rationale of how the GB system differed from other systems would be useful.

The Issue Group concluded that it would need a second meeting when there was more clarity around what an NRA decision on the Terms and Conditions for Balancing would look like, which expected to be early October. This would allow the Issue Group to better consider the different costs that could/should be reflected in pricing signals, while being mindful of things that may send incorrect pricing signals (such as STOR, which NGESO took an action to investigate rationale for). The Issue Group noted that a Modification would be raised to address Harmonised Imbalance Settlement, and that any recommendations of Issue 83 would support this.

Actions

No	Action	Owner
1	Provide additional clarity on exactly what is included in the BPA and how it is calculated	NGESO
2	Provide an overview of how different products, including spin gen amongst others, are used, with reference to system and energy balancing.	NGESO
3	Investigate whether ESO has a more updated view of future system needs and developments compared to the examples in the June 2017 SNAPS report seen by the Issue Group	NGESO
4	Seek attendance at a subsequent meeting of people with expertise in the EBGL requirements	NGESO/ELEXON/Ofgem
5	Further investigate the rationale for removing STOR actions from the BPA calculation.	ELEXON
6	Investigate whether spin gen can be better categorised for reporting purposes	NGESO