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SUMMARY

The Issue group were provided updates on the actions taken at the first meeting. NGESO informed the group that while it didn't have a detailed overview of product mapping and view of the future landscape, it was hoping to publish a document with this information in the coming weeks. It also noted the C16 workshop being held on 5 November (contact Jamie.webb@nationalgrideso.com to attend) and commented that it would seek to work with the industry to ensure that it provided the sufficient clarity.

NGESO provided an overview of the BPA calculation and what it seeks to achieve. A member commented that costs incurred by NGESO were recovered through Balancing Services and Use of System charges, and that the intention of Imbalance Pricing was to incentivise Parties to self balance. The member noted that since the BPA was introduced the marginal volume used in the Imbalance Price calculation had reduced from 500 to 1 MWh. As such they believed that the BPA was less relevant as it was less likely to relate to the actions that would set the Imbalance Price, and contended that this would make the Imbalance Price artificially inflated. A member believed the key question was whether pre-Gate Closure actions would influence the value of submitted Bids and Offers. For example, if a unit that had been paid to warm was able to bid in lower than it otherwise would have done, then this should be reflected. They believed that there was an argument that the costs should be attached to specific actions.

The Issue Group noted that in recent years, the BPA had only consisted of BM start up costs, but NGESO commented that the BPA was not limited to this. The Issue Group also noted that it was challenging to map the data published by NGESO to the components of the BPA calculation, meaning participants would be unable to verify.

The Issue group considered an example where everyone was perfectly balanced. Even in this case, NGESO would need to hold reserve, but the cost of this would not be reflected in an Imbalance Price and this would be for system needs. The Issue group considered that there were arguments for the BPA to be removed, but noted that further analysis would be needed to ensure impacts of this were thoroughly assessed. ELEXON highlighted that in its decision on [P003 'Correction Of Price Spikes Generated By De-Minimis NGC Purchases'](#), the Authority believed that options fees should be included in the cash out price, but commented that EBGL took a different stance. It also noted that P305 reversed this rationale by removing STOR from the BPA.

The Issue Group noted that reserve was held to protect against intermittent generation being unable to deliver, but that technology and forecasts had improved which reduced this risk. NGESO agreed to produce a mapping of when various products would be used by the control room, with a focus on the difference between system and energy balancing actions.

Many Issue Group members agreed with rationale for removing the BPA. One member was unconvinced that that BPA improved the signal sent by the Imbalance Price. Another member commented that to ensure the BPA was improving market signals, you first needed to make sure all relevant components were included, and questioned whether there were services not reflected in the BPA that had the potential to affect the value of actions in the BM.

A member commented that while it wasn't a perfect solution, they believed the BPA added benefit to the Imbalance Price as it ensured that bilateral costs did not reduce the Imbalance Price. The member commented that while its form may require changes, there was rationale to retain its essence.

The Issue group noted that EBGL prohibited pre-agreed utilisation fees being included in the calculation of the Imbalance Price, and NGESO commented that the continued need to protect against intermittent generation meant that they couldn't just be removed and so the question was how they should be treated. The group noted that while pre-agreed utilisation fees were prohibited, the EBGL didn't explicitly outlaw availability fees being paid. NGESO clarified that to go against this would require a derogation, which had been rejected by the Authority, and so unless new rationale was found, this would not be possible. This means that the agreement of utilisation fees will need to be removed from contracts by 31 January 2020.

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The Issue group noted that requirement to price actions on real-time market conditions would also make the Reserve Scarcity Price redundant. EBGL limitations only relate to energy actions, so anything done for system reasons could continue unchanged.

This led the Issue Group to consider the options for how energy costs could continue to be reflected. ELEXON noted that following discussion with Ofgem, any separate settlement mechanism would need to be shown to be clearly distinct to Imbalance Pricing to be approved. On the option of using BSUoS, the group noted that the costs of the actions was already recovered in this charge, but it may be possible to add an imbalance related component to facilitate. In either case, the solution would need to be proportional to the issue and a clear benefit would need to be demonstrated.

ELEXON highlighted that in some instances, BM start-up costs were reflected in the BPA, but the unit had not been called upon, and so these shouldn't be considered energy actions. An Issue Group member did not believe the reserve was solving an energy problem in this case and argued that it was wrong that these actions should influence the Imbalance Price. The Issue Group therefore considered that the cost of warming actions should only feed through where the unit was used to provide energy balancing. A mechanism was proposed to allow the BM start-up cost to be allocated to the relevant BMU action price to feed into the Imbalance Price calculation only when the unit was utilised.

Members had differing views on how costs would be allocated when associated with a unit that was paid to warm for 7 hours, but only instructed in the last hour. The costs could be allocated pro-rata across the warming period or all the costs could be allocated to the delivery period, some believed this second method would create a sharper price incentive while others believed this would create artificial spikes.

ELEXON noted that increased Imbalance Prices could lead to NIV chasing, which made balancing more challenging. One member commented that paying units to warm provided them a competitive advantage over other units that were able to respond to instructions quickly, believing that it essentially subsidised inflexible units. NGESO took an action to confirm whether BM start up contracts were legacy contracts, or if they were offered to new units. An Issue Group member believed that BM start-up was still a valuable service, but noted that it related less to energy balancing than previously.

National Grid took away an action to provide analysis on how often energy flagged BM start-up resulted in activation of the warmed unit and how long the unit was activated for.