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| Issue 92 – ‘Reserve Scarcity Price Review’ |

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| **Your response** |
| We invite you to respond to the questions in this form. |
| **Description: email_us_go_online** |
| **How to return your response** |
| Please send responses, entitled ‘Issue 92 RFI’, to [**bsc.change@elexon.co.uk**](mailto:bsc.change@elexon.co.uk) by **5pm** on  **Wednesday 12 May 2021**. |

Background

The Reserve Scarcity Price (RSVP) was introduced into the Imbalance Price Calculation in November 2015 with BSC Modification [P305 ‘Electricity Balancing Significant Code Review Developments’](https://www.elexon.co.uk/mod-proposal/p305/). This Modification was raised to implement the recommendations of Ofgem’s Electricity Balancing Significant Code Review (SCR), which sought to address several defects of the previous imbalance calculations.

RSVP represents the impact that electricity scarcity might have on the price of energy balancing reserves. Elexon calculate this by multiplying the Loss of Load Probability (LoLP) by the Value of Lost Load (VoLL). The VoLL represents the price to an energy consumer of not being able to access a megawatt hour (MWh) volume of electricity. It is a parameter that is currently set to £6,000/MWh. The LoLP is a value between zero and one, representing the likelihood that there will be insufficient electricity supply to meet demand. The closer to one the figure, the more likely it is that there will be insufficient supply.

National Grid ESO calculates the LoLP for every Settlement Period according to the principles set out in the [Loss of Load Probability Calculation Statement](https://www.elexon.co.uk/bsc-and-codes/bsc-related-documents/other-documents-category-3/loss-load-probability-calculation-statement/). National Grid ESO also calculate the De-Rated Margin (DRM) according to the principles set out in the LoLP Calculation Statement. Once calculated, National Grid ESO send the LoLP and DRM to Elexon to publish on the Balancing Mechanism Reporting Service (BMRS) in advance of the Settlement Period and to use in the Imbalance Price calculation.

The RSVP mechanism can revise the price of Short Term Operating Reserve (STOR) balancing actions upwards. If the RSVP is greater than the utilisation price of a STOR action, the System Price will use the Reserve Scarcity Price instead of the utilisation price when calculating the marginal System Price.

Since the implementation of P305, the GB electricity system and how it is balanced has changed significantly. Over the past five years the volume of renewables on the system has increased dramatically. Managing the system has become more challenging as can be demonstrated through the rising BM costs, especially over the past year.

We think that due to the changing system conditions the RSVP mechanism requires review. In order to reach a beneficial solution, the Issue Group wish to gather information on how RSVP and its component calculations are used by different sectors of the industry. We therefore ask you to answer the questions in this form. If you wish your responses to remain confidential, please indicate in the confidentiality section on page two.

Response Form

We welcome your views and responses to the questions set out in this response form. To help us understand your response, please provide supporting reasons for your answers where possible. We also encourage you to provide financial information showing any costs and/or benefits of this change to your business.

**Elexon can treat any information provided as confidential if you request this**. Please indicate clearly in your response any information you would like to be treated as confidential (this information will be anonymised before being shared with the Workgroup)

Your Details

| Respondent | |
| --- | --- |
| Name |  |
| Organisation |  |
| Contact telephone number |  |

| Parties Represented | | | | |
| --- | --- | --- | --- | --- |
| BSC Party role(s) represented (mark all that apply) |  | Generator |  | Supplier |
|  | Distributor |  | Interconnector User |
|  | Int. Administrator |  | Int. Error Admin. |
|  | Non Physical Trader |  | System Operator |
|  | Virtual Lead Party |  |  |
| Non-Party role(s) represented (mark all that apply) |  | ECVNA |  | Trade Body[[1]](#footnote-1) |
|  | MVRNA |  | Consultant |
|  | Supplier Agent: |  | Other: |
|  | [please state] |  | [please state] |

| Confidentiality | |
| --- | --- |
| Does this response contain confidential information? | If ‘Yes’, please clearly mark the confidential parts |

Request for Information - Questions

| **Question 1a** |
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| What are the benefits of Reserve Scarcity Pricing as a whole, including cashout, and how do you make use of the information? |
| Please provide your rationale |
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| **Question 1b** |
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| What are the drawbacks of Reserve Scarcity Pricing as a whole, including cashout that limit your use of this information? |
| Please provide your rationale |
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| **Question 2** | |
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| Does the current Reserve Scarcity Price mechanism influence your trading strategy or your participation in the electricity market and how? |  |
| Please provide your rationale. | |
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| **Question 3a** |
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| What are the benefits of the De-Rated Margin and Loss of Load Probability calculations and how do you use the information? |
| Please provide your rationale. |
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| **Question 3b** |
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| What are the drawbacks of the De-Rated Margin and Loss of Load Probability calculations that limit your use of this information? |
| Please provide your rationale. |
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| **Question 4** | |
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| Do the current De-Rated Margin and Loss of Load Probability forecasts influence your trading strategy or your participation in the electricity market and how? |  |
| Please provide your rationale. | |
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| **Question 5** | |
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| Considering the move to day ahead procurement of STOR on 1 April 2021 and all the new information that National Grid ESO will be publishing in relation to this new market (buy curves, number of bids, number of units, auction details – volumes offered/secured, prices offered / cleared etc.), do you think a Reserve Scarcity Price mechanism will still be beneficial? |  |
| Please provide your rationale. | |
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| **We invite any answer you can provide for question 6, but examples include:** |
| a) Make cashout more reflective of the costs borne by consumers when margins are very tight; and  b) More accurately reflect the value of reserve capacity in a tight market; and  c) Include other reserve products. |

| **Question 6** |
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| How can the current processes be improved? |
| Please provide examples and supporting text below. |
| Insert examples here |

| **Question 7** | |
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| Is there other related information that you would like to see published as well or instead of the existing Reserve Scarcity Price-related information? |  |
| Please provide your rationale. Please note that we are interested in estimation techniques in normal circumstances; we are not looking for Covid-19 related estimation techniques. | |
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| **Question 8** | |
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| Is there an alternative or additional process or mechanism that you would prefer to see adopted instead of, or as well as the existing Reserve Scarcity Price mechanism one? |  |
| Please provide your rationale. | |
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| **Question 9** |
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| Do you have any other comments you would like to make in relation to RSVP? |
| Please provide comments below. |
| Insert examples here |

Further Information

To help us process your response, please:

* Email your completed response form to [**bsc.change@elexon.co.uk**](mailto:bsc.change@elexon.co.uk), entering “Issue 92 RFI Consultation” in the subject line
* Clearly indicate any confidential parts of your response
* Respond by **5pm** on **Wednesday 12 May 2021** (the Workgroup may not be able to consider late responses)

The Issue Group will consider your response at its next meeting.

1. Please state how many members you represent and which roles, where possible. [↑](#footnote-ref-1)