

P415 Workgroup Meeting 4 Summary

The group considered the Event Day, Non-Delivery and Imbalance Settlement mechanisms and their application within P415 and began to consider the issue of Supplier compensation – whether it is required, who should pay and what price it should be paid at. The group felt that Supplier compensation will be necessary in principle but were unable to come to a firm conclusion on the most appropriate mechanism to apply it.

Next Steps

Alongside considerations on Supplier compensation and discussion of further detail related to reporting and some other outstanding areas, the Workgroup will be presented with several options for procuring a Cost Benefit Analysis at its next meeting.

National Grid feedback

National Grid had taken an ongoing action to report back to the Workgroup what information they would need from a VLP who would operate in the Wholesale Market. While this remains ongoing, they understand that there will be a requirement for Physical Notification from VLPs, and visibility of outputs from assets. The energy forecasting team are also looking at PNs from the Supplier's side, with further discussions to be relayed to the Workgroup.

Event days

Baseline Methodologies create baselines based on normal usage and are designed to predict what the MSID Pair should be doing.

In order to determine what is normal usage it needs to discount days where the site is doing something not normal, such as providing a Balancing Service (and therefore for P415 should also include wholesale market activity).

Under P376, the VLP tells us when those days are, and Event Days are therefore discarded from the baseline methodology to calculate a forecasted volume.

Parties are responsible for notifying SVAA of 'Event Days' and when submitting an Event Day, the Party will be required to choose an option from a predefined list of Event Day types. Under P376, the list will be restricted to two options:

- Balancing service
- Other

Given that baseline methodologies discard Event Days which do not indicate typical behaviour, the Workgroup considered whether the Event Day methodology under P415 needs to distinguish between BOA and WM activity. Both options would result in the same outcome, with each option discarded from the baseline methodology, so the group considered whether a third option to represent Wholesale Market activity would be beneficial.

Noting that from a calculation view it would make no difference to the calculation— activity would either be classed an event day or not – the group considered whether a third category would be useful for assurance and transparency purposes.

Rather than creating a distinct new category, the group agreed that amending the “Balancing Services” category of Event Days to include WM activity was the simplest and best approach to preserve the distinction between the two options as 1) VLP Activity (VLP action in the BM or WM) and 2) Other (Maintenance or something that the Customer usually actions), with different requirements for the evidence to be provided in each case.

Some Workgroup members highlighted that the portfolio of some VLPS may have a high volume of frequent dispatches and therefore very few non-Event Days to build a baseline with. The Proposer felt that this is a P376 issue rather than a P415 one and the group agreed that this is not in scope of P415, as the Baseline Methodology and process for creating new ones is detailed in P376. The group were satisfied that if an organisation wanted a Baseline Methodology that didn’t exclude Event Days they can put this forward under the P376 process.

Non-delivery calculation

The non-delivery calculation makes sure participation in the BM is incentivised and identifies, per Settlement Period, whether a BMU has delivered against the balancing actions it has received and whether it has benefitted from that non-delivery.

To do so it compares a BMU Expected Metered Volume (QME) against the actual BMU Metered Volumes, and then compares the price the Party will be paid (i.e. Acceptance Price) against the price the party will be charged for non-delivery (Imbalance Price).

The group were taken through scenarios where a SBMU is active in both WM and BM markets, one in which they deliver and one where they don’t deliver the expected volume, to demonstrate that non-delivery takes into account only Balancing Services so creating a problem where existing non-delivery formula doesn’t recognise WM volumes.

To do so P415 would need to discern a SBMU value for WM activity, so the group considered the issue at hand. It was rephrased as under the status quo, there are no penalties for non-delivery of WM volumes so there is a need for the P415 solution to incentivise delivery on BM to avoid gaming.

Non-delivery in the WM is calculated at the account level, as an imbalance volume, and Elxon confirmed that calculating BOA non-delivery to make sure that balancing actions are effectively incentivised would require knowing the VLP’s wholesale position at the SBMU level.

The VLPs in the group were asked whether providing a BMU view of WM activity (or intended WM activity) would be an onerous requirement. One Workgroup member stated that this would undermine aggregation by “disaggregating the aggregator” and was uncomfortable with this approach, but would support a solution of aggregating actions at an account level and where there’s non delivery, paying the highest price within those aggregated volumes. This would only apply in cases where several units in several zones are activated.

At present the Workgroup do not see a need for these changes and are happy that the BOA will be given priority within the balancing volumes and happy that the incentive to deliver their volumes within the Balancing Mechanism/WM will be the imbalance cash out price.

Elexon agreed to take this away for consideration, also asking National Grid whether, if they will have visibility of what VLPs intend to do (via the equivalent of a FPN) to help them balance the system, they would be satisfied that issued balancing actions would be sufficiently incentivised. The National Grid representative agreed to take this away for internal discussion.

The Workgroup agreed that the deadline for notify Settlement of which BMU is active in the WM and the associated expected BMU Deviation Volumes (i.e. Wholesale Market volumes) should be at Gate Closure.

MVRNs

The group considered whether VLPs should they be able to be Lead Party to a MVRN given that VLPs will not be allocated any Metered Volumes under P415.

The Proposer stated that MVRNs do not do anything that VLPs need, and would therefore not be useful or necessary, and the Workgroup agreed that VLPs would not have this functionality.

Imbalance settlement

Under the status quo, MSID Pair Delivered Volumes are used as the basis for the Supplier adjustment at the Energy Account level via Balancing Volumes. Under P415, the VLP Delivered Volumes will include both BM and Wholesale Market volumes, and Elexon sought views on whether it would be necessary to separate out BM and WM Supplier Imbalance adjustment to make sure they flow through the appropriate mechanism and whether this increased granularity would be beneficial.

The Workgroup felt that the outcome will be the same and a change would not be mathematically necessary but noted increase transparency benefits, and that this area should be revisited once the group have determined if Supplier compensation is needed or not under P415.

Supplier compensation

A Workgroup member with experience operating as a VLP in Europe gave a presentation to the Workgroup outlining the Clean Energy Package requirements and how this relates to the question of whether Suppliers would need to be compensated under P415 and, if necessary, who should pay.

The issue of Supplier compensation is open to interpretation within the Clean Energy Package, however there is a clear direction that mechanisms to achieve this must not present a barrier to entry for flexibility.

Noting that Suppliers will be left with a cost from the WM they cannot recover in RM due to VLP action under P415, the group feel that Supplier compensation will be necessary in principle.

The group began to consider options for the most appropriate mechanism to apply Supplier compensation but were unable to come to a firm conclusion, this point will be tabled for consideration at the next meeting at options for mechanism for how to apply that.