

De Minimis Acceptance Threshold (DMAT) and Continuous Acceptance Duration Limit (CADL) Parameter Review Consultation Responses

The Consultation was issued on 24 October 2018, with responses invited by 9 November 2018.

Consultation Respondents

Respondent	No. of Parties/ Non-Parties Represented	Role(s) Represented
UK Power Reserve Ltd.	1	Generator
Cobblestone Energy Ltd	1	Trader
Drax Group Plc	3	Supplier / Generator
ENGIE	1	Supplier / Generator
<i>Ørsted</i>	11	Supplier / Generator / Trader
Outlook Energy Services	1	Consultant
Everis obo ScottishPower	8	Generator / Trader / Distributor

Question 1: Currently the CADL is set to 15 minutes. Do you agree with the proposal to change CADL to 10 minutes (or some other value) based on the analysis provided? Please give any additional comments.

Summary

Yes	No	Neutral/No Comment	Other
6	1	-	

Responses

Respondent	Response	Rationale
UK Power Reserve Ltd.	Yes	<p>As a fundamental principle, the imbalance price should reflect the true cost of balancing the system, therefore all actions should ideally be included. Only then will the market signal be truly reflective, and the market can respond to such signal appropriately.</p> <p>UKPR supports as low as CADL as possible to allow for the imbalance price to be reflective of the actions taken in real time to keep the system balanced. The proposal for a shorter CADL of 10 minutes is the right step in this direction and UKPR supports reducing the CADL limit. This would allow for more balancing actions to make it through the calculation of the imbalance price.</p> <p>Capturing as many actions as possible for the calculation of the imbalance price will favour increased transparency over which actions are taken to balance the system, allowing also market participants to verify what service is called on, at which point in time, with an overall impact on market behaviour (which is the essential purpose of making the imbalance price spikier and more reflective).</p> <p>The current 15-minute limit to determine whether actions are deemed to be system or energy balancing actions is arbitrary. Balancing renewables and energy balancing now requires shorter sharper actions and this is the new norm given solar and wind penetration.</p>

Respondent	Response	Rationale
		<p>Shorter sharper actions will also naturally become more frequent as NGENSO makes the BM market more accessible for smaller providers and aggregators. The higher volume of shorter balancing actions taken by NGENSO also requires an automated dispatch system, which should have already been put in place with EBS*. Only then will the ESO be able to manage operability challenges, and lead to more cost effective balancing actions.</p> <p>An automated system will also facilitate identifying which actions should be classified as energy and which as system balancing, ultimately enabling a reflective imbalance price.</p>
Cobblestone Energy Ltd	Yes	From the analysis, it is clear that at 10 minutes, the CADL flagging captures less 'unintended' actions. IE the ones that are not fast reserve action.
Drax Group Plc	Yes	<p>We agree with the analysis and believe there is benefit in reducing CADL to 10 minutes. The purpose of CADL is to flag fast reserve actions but not non-fast reserve actions. Once the CADL increases above 10 minutes, the volume of non-fast BOAs flagged exceeds the volume of fast BOAs flagged, and as such we believe 10 minutes is optimal.</p> <p>However, we would see merit in further work by ELEXON to understand if CADL is still fit for purpose and if the time duration could be further reduced with the aim of including fast-reserve actions in the cash-out price. Any analysis on this would be beneficial to understand the potential impact of such a change.</p>
ENGIE	Yes	<p>We agree that CADL should be reviewed although we do not understand why the justification is based on ensuring the methodology tags the largest percentage of fast reserve BOAs whilst minimising the number of Non-Fast BOAs that would be incorrectly flagged as CADL. It has not been made clear in the consultation why fast reserve BOAs are the distinguishing feature. Non-Fast Reserve BOAs could equally be of short duration.</p> <p>Nevertheless we support reducing CADL and would go so far as to no longer have CADL especially as it seems to conflict with the RSP function. The RSP function creates a proxy for the price that reserve providers would seek in the absence of an option fee in an ancillary service contract. The CADL</p>

Respondent	Response	Rationale
		function may well undo the scarcity signal that RSP is trying to create as if the reserve action is short duration, it will be tagged in any case.
<i>Ørsted</i>	No	<p>Imbalance prices should be determined in the way that encourages efficient balancing behaviours. Ofgem held the view that, to date (as of PAR50), P305 has worked as it intended to. However, PAR1 is still to be tested as it was only introduced on 1 November 2018. We are concerned about any further changes to imbalance pricing methodology or its parameters at this time as market participants should be given sufficient time to fully understand and adapt to the imbalance risks associated with PAR1, before any further changes are made.</p> <p>In our view, the current imbalance prices under PAR1 (CADL=15min and DMAT=1MWh) are sufficiently sharp and responsive to incentivise self-balancing. We think that the industry would benefit from having a better understanding of whether an even more marginal pricing than PAR1 (under the proposed lower CADL & DMAT settings) would increase incentive for balancing behaviours and whether such benefit is proportional to the risks borne by market participants.</p> <p>As the largest offshore wind generator and a renewable energy supplier in GB, we are also concerned about the knock-on impact on renewable PPA pricing. Sharper imbalance price would make renewable energy less attractive due to higher balancing risks. This has the potential to reduce the competitiveness of renewable energy and impact investment decisions in the future. We believe that changes to CADL and DMAT should not be analysed in isolation from the wider market and system impacts.</p>
Outlook Energy Services	Yes	I think what you are proposing sounds like a good idea: It should mean that the imbalance price reflects the true cost of balancing to a greater extent than it does today.
Everis obo ScottishPower	Yes	The analysis seems to be comprehensive and supports the reduction to 10 mins.

Question 2: Currently the DMAT is set to 1MWh. Do you agree with the proposal to change DMAT to 0.1MWh (or some other value) based on the analysis provided? Please give any additional comments.

Summary

Yes	No	Neutral/No Comment	Other
6	1	-	

Responses

Respondent	Response	Rationale
UK Power Reserve Ltd.	Yes	<p>Looking at ELEXON's analysis on the impact on prices, it is apparent that a lower DMAT set at 0.1MWh – coupled with a 10-minute CADL – would allow for more reflective price signals that would take into account a greater number of shorter sharper balancing actions.</p> <p>As stated above, UKPR favours a more reflective imbalance price, which provides greater transparency over the actions taken by NGESO.</p>
Cobblestone Energy Ltd	Yes	None provided
Drax Group Plc	Yes	<p>We believe the analysis demonstrates that reducing DMAT to 0.1MWh will make cash out prices more reflective of the true cost of energy.</p> <p>In addition, tagging a large amount of small (<1MWh) non-BM STOR out the calculation could lead to a NIV for a given settlement period that indicates the system was long, when if you consider the aggregated <1MWh actions that were removed, the system was actually short. In this case the imbalance price should be set by actions taken to increase generation or decrease demand, but will actually be set by actions taken to reduce generation or increase demand. The proposed change to 0.1MWh should mitigate this anomaly.</p>
ENGIE	Yes	<p>ENGIE has for some time observed that the number of <1MWh actions being taken has been increasing and agrees that DMAT should be reduced.</p> <p>Currently, these small volume actions do not influence the NIV direction. With an increasing amount being taken and the move to more</p>

Respondent	Response	Rationale
		balancing actions coming from distributed and therefore smaller providers, it is therefore important to start to capture these actions in the cashout price calculation and arguably more importantly in the NIV and the volume being taken can 'flip' the system direction. Reducing DMAT to 0.1MWh therefore seems appropriate.
<i>Ørsted</i>	No	Same as Question 1.
Outlook Energy Services	Yes	Same as Question 1.
Everis obo ScottishPower	Yes	We agree with the analysis.

Question 3: If a change to either parameter is approved, do you agree with the proposed implementation date of 1 April 2019 (or believe another date is more preferable)?

Summary

Yes	No	Neutral/No Comment	Other
4	1	-	2

Responses

Respondent	Response	Rationale
UK Power Reserve Ltd.	Yes	These changes should apply as soon as possible to allow all systems to be in place for a fair and levelled treatment of all market players.
Cobblestone Energy Ltd	Yes	Unless I am mistaken, these changes are simply a matter of updating a variable in the systems. IE not much if any development time required. My position is that they should be updated as soon as possible. If April 2019, is the soonest, then so be it, but I do not see why they cannot be updates shortly after agreement.
Drax Group Plc	It depends	Further analysis is necessary before an appropriate lead time can be determined. Suppliers account for the cost of imbalance in contracts based on the system price calculation not changing and we need to better understand the materiality of this change and thus if/how/when this should be reflected in pricing to customers. It is imperative that additional analysis is conducted, in particular on historic system prices at half-hourly granularity using the proposed DMAT and CADL values, along with PAR1 and £6,000 VoLL, before we can judge the merits of any particular implementation lead time.
ENGIE	Yes	Yes although ENGIE would support an earlier implementation.
Ørsted	No	<p>We would like to see further analysis taken on the impact of PAR1 after its implementation and whether reducing CADL and DMAT would further enhance balancing behaviours across the market.</p> <p>If there is a case for change then, we would require an implementation lead time of 1 year to fully understand the impact and ensure our commercial strategy and operation can respond effectively.</p>

Respondent	Response	Rationale
Outlook Energy Services	Other	The participant didn't answer this question.
Everis obo ScottishPower	Yes	The implementation date is appropriate.

Question 4: Do you have any further comments regarding the CADL review? Please give any additional comments.

Summary

Yes	No	Neutral/No Comment	Other
-	6	-	1

Responses

Respondent	Response	Rationale
UK Power Reserve Ltd.	No	None provided.
Cobblestone Energy Ltd	No	None provided.
Drax Group Plc	No	None provided.
ENGIE	No	None provided.
<i>Ørsted</i>	No	None provided.
Outlook Energy Services	Other	The participant didn't answer this question.
Everis obo ScottishPower	No	None provided.

Question 5: Do you have any further comments regarding the DMAT review? Please give any additional comments.

Summary

Yes	No	Neutral/No Comment	Other
-	5	1	1

Responses

Respondent	Response	Rationale
UK Power Reserve Ltd.	No	None provided.
Cobblestone Energy Ltd	Yes / No	The participant didn't answer this question.
Drax Group Plc	No	None provided.
ENGIE	No	None provided.
<i>Ørsted</i>	No	None provided.
Outlook Energy Services	Other	The participant didn't answer this question.
Everis obo ScottishPower	No	None provided.

Question 6: Do you believe the proposed CADL change will have a material impact to your systems? Please give any additional comments.

Summary

Yes	No	Neutral/No Comment	Other
1	4	1	1

Responses

Respondent	Response	Rationale
UK Power Reserve Ltd.	No	As balancing services providers, our systems will not be materially impacted. As ELEXON has rightly noted, the material impact will be on the imbalance price, by making it more reflective of all the actions taken by NGESO to balance the system.
Cobblestone Energy Ltd	Yes / No	The participant didn't answer this question.
Drax Group Plc	No	We have not identified a material impact.
ENGIE	No	None provided.
<i>Ørsted</i>	Yes	There will be system changes to update the imbalance price forecast model. However, we see the commercial impact to be much greater, which could involve making adjustments to our imbalance risk premium in customer contracts. Sharper imbalance prices are likely to favour some particular market participants (e.g. large integrated companies with stable generation profile or small generation/DSR assets that operate on a speculative basis post Gate Closure for NIV chasing) while harm others (e.g. small suppliers and intermittent generators who are more exposed to imbalance risks), which could cause pricing inefficiency across the market.
Outlook Energy Services	Other	The participant didn't answer this question.
Everis obo ScottishPower	No	It will not have a significant systems impact.

Question 7: Do you believe the proposed DMAT change will have a material impact to your systems? Please give any additional comments.

Summary

Yes	No	Neutral/No Comment	Other
1	4	1	1

Responses

Respondent	Response	Rationale
UK Power Reserve Ltd.	No	As balancing services providers, our systems will not be materially impacted.
Cobblestone Energy Ltd	Yes / No	The participant didn't answer this question.
Drax Group Plc	No	We have not identified a material impact.
ENGIE	No	None provided.
<i>Ørsted</i>	Yes	Same as Question 6.
Outlook Energy Services	Other	The participant didn't answer this question.
Everis obo ScottishPower	No	It will not have a significant systems impact.