

# ISG213-SPAR

## REPORTING ON DECEMBER 2018

ISSUE 38 – PUBLISHED 22 JANUARY 2019

### SYSTEM PRICE ANALYSIS REPORT

The System Prices Analysis Report (SPAR) provides a monthly update on price calculations. It is published by the ELEXON Market Operations Team to the Imbalance Settlement Group (ISG), and on the ELEXON Website ahead of the monthly ISG meeting.

This report provides data and analysis specific to System Prices and the Balancing Mechanism<sup>1</sup>. It demonstrates the data used to derive the prices. The data is a combination of II and SF Settlement Runs.

On 1 November 2018, the second part of Modification P305 went live. This reduced the Price Average Reference (PAR) volume to 1MWh, introduced a 'dynamic' LoLP function and increased the Value of Lost Load (VoLL) to £6,000/MWh.

In this month's edition additional analysis is provided in Section 4, as a result of the 2018 parameter reviews of the De Minimis Acceptance Threshold (DMAT) and the Continuous Acceptance Duration Limit (CADL). Changes to the parameters are due to be made on 1 April 2019, pending approval by Ofgem.

The appendix to this month's SPAR provides analysis on System Prices throughout 2018.

## 1 SYSTEM PRICES AND LENGTH

This report covers the month of December. Where available, data uses the latest Settlement Run (in most cases 'II' or 'SF').

In this report, we distinguish between a 'long' and a 'short' market when analysing System Prices, because the price calculation differs between two scenarios. When the market is long, System Prices are based predominantly on the System Operator's 'sell' actions such as accepted Bids. When the market is short, System Prices are based predominantly on the System Operator's 'buy' actions. **Table 1.1** gives a summary of System Prices for December 2018, with values shown in £/MWh.

**Graph 1.2** shows the distribution of System Prices across Settlement Periods in December 2018 when the market was long and short.

54% of System Prices were between £30/MWh and £60/MWh, regardless of system length. When the system was long, 88% of prices were between £40/MWh and £60/MWh. When the system was short, 84% of prices were between £70/MWh and £100/MWh, and 10% of prices were over £100/MWh.

Month	System Price (Long)				
	Min	Max	Median	Mean	Std Dev
December 2018	-68.40	63.78	49.88	45.39	15.39

Month	System Price (Short)				
	Min	Max	Median	Mean	Std Dev
December 2018	52.45	170.00	79.00	83.95	16.03

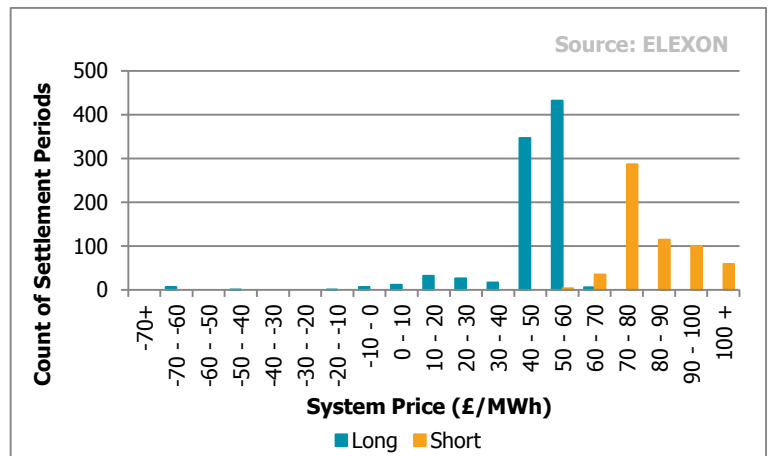
**1.1 System Price summary by month (£/MWh)**

<sup>1</sup> For further detail of the Imbalance Price calculation, see our imbalance pricing guidance: <https://www.elexon.co.uk/operations-settlement/balancing-and-settlement/imbalance-pricing/>

# SYSTEM PRICE ANALYSIS REPORT

System Prices exceeded £100/MWh a total of 59 times in December 2018, compared to 48 times in November. The highest System Price of the month, £170.00/MWh, occurred from Settlement Period 34 and 37 on 9 December 2018. The price in these Settlement Periods was set by an OCGT BMU priced at £170.00/MWh.

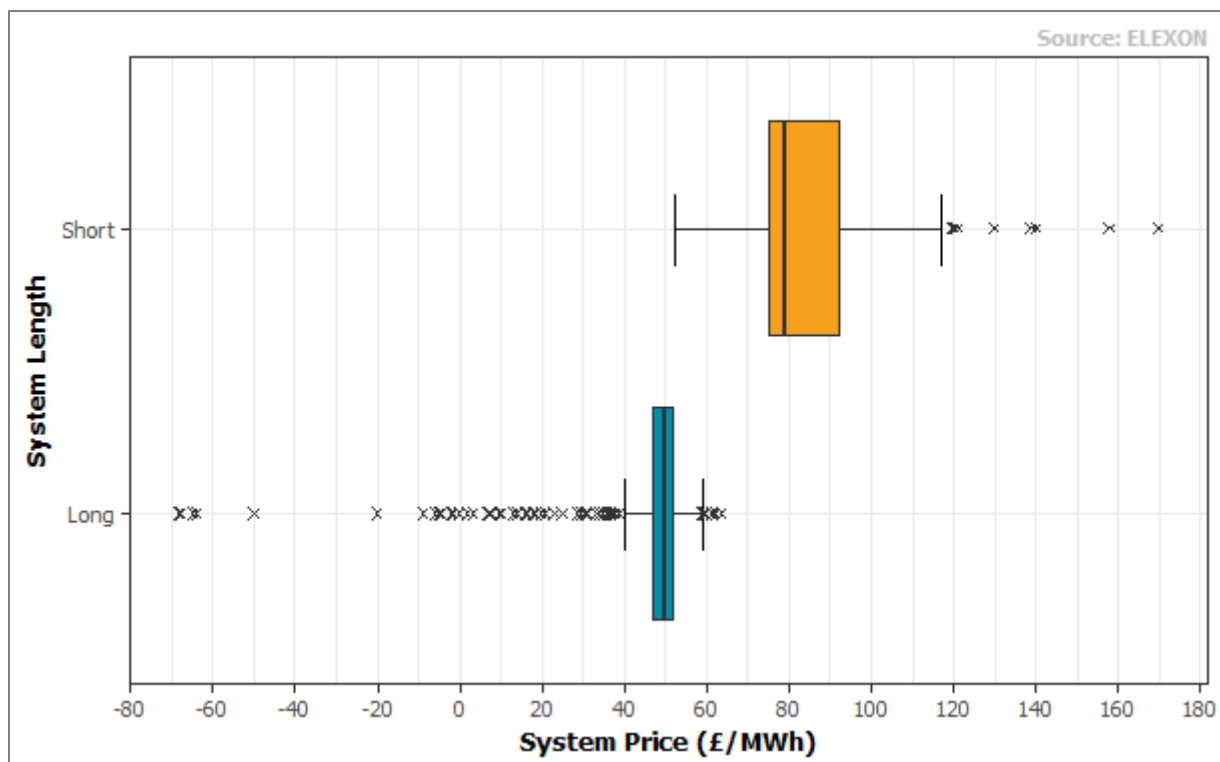
There were seven Settlement Periods where the System Price was £0/MWh, and 16 negative System Prices, in December. The lowest System Price, -£68.40/MWh, occurred during Settlement Periods 10 and 11 on 29 December. These prices were set by Bids from six Wind BMUs all priced at -£68.40/MWh.



1.2 Frequency of System Prices over the last month

**Graph 1.3** displays the spread of System Prices in December 2018 as a box plot diagram, split between a short and long system. The middle line in each box represents the median System Price of the month, which is £79.00/MWh for short Settlement Periods and £49.88/MWh for long Settlement Periods. Each box edge represents the lower and upper quartiles (25th and 75th percentile respectively), with the Interquartile Range (difference between the Upper and Lower quartiles) being £17.05/MWh for short System Prices and £4.80/MWh for long System Prices.

Outliers are shown on the graph as crosses, and have been defined as being greater than 1.5 times the Interquartile Range (IQR) away from the Upper and Lower quartiles. Under this definition, 112 long and 24 short System Prices for December were outliers. Of the 112 long outliers, 103 were less than the lower outlier boundary. These prices ranged from -£68.40/MWh (the lowest System Price of the month) to £63.78/MWh.



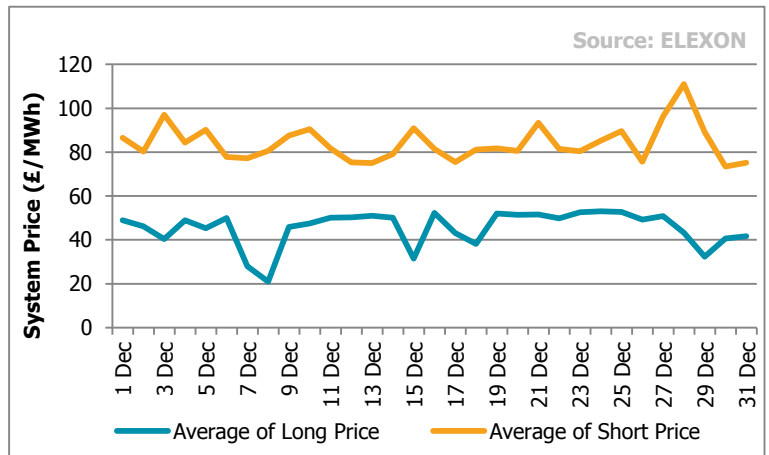
1.3 System Price spread over the last month

# SYSTEM PRICE ANALYSIS REPORT

**Graph 1.4** shows daily average System Prices over the last month. In December, the average System Price was £45.39/MWh when the system was long and £83.95/MWh when the system was short.

The highest daily average price when the system was short was £111.00/MWh, and occurred on 28 December. The system was short for 7 Settlement Periods on this day.

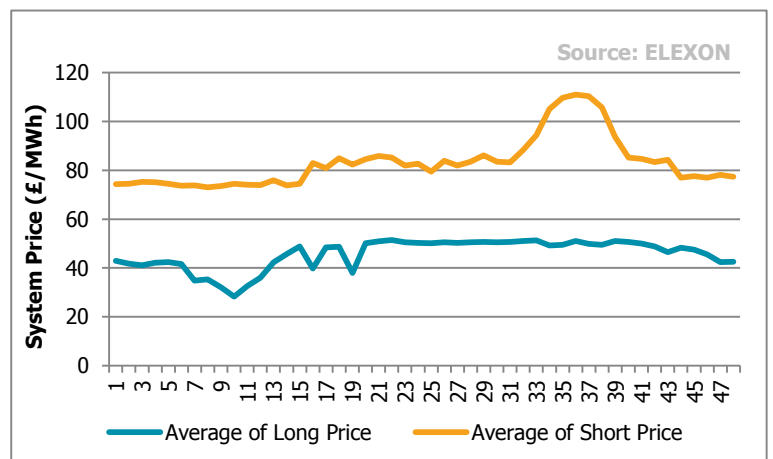
The lowest daily average price when the system was long was £21.02/MWh on 8 December 2018. The system was long in 26 Settlement Periods on this day.



**1.4 Daily average System Price over the last month**

**Graph 1.5** shows the variation of average System Prices across the day. Short prices were highest in Settlement Period 36, with long prices lowest in Settlement Period 10. The lowest average System Prices, regardless of market length, occurred during Settlement Period 10, when the System Price was £43.19/MWh.

Average long Settlement Period System Prices ranged between £28.29/MWh and £51.40/MWh. Average short Settlement Period prices varied from £72.98/MWh to £110.95/MWh.



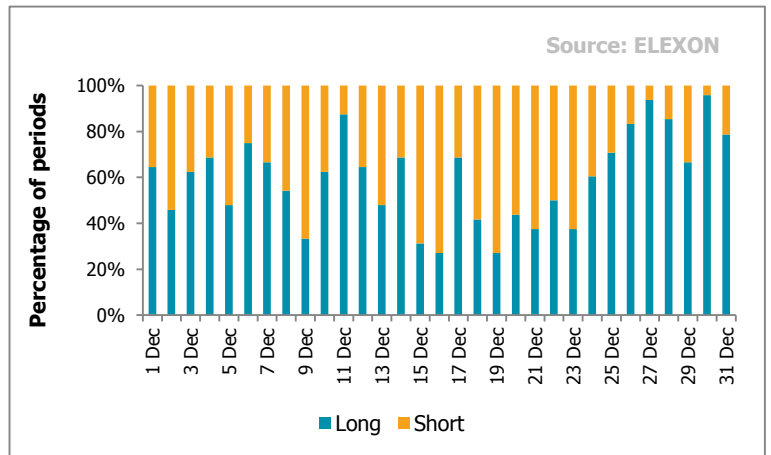
**1.5 Average System Price by Settlement Period over the last month**

# SYSTEM PRICE ANALYSIS REPORT

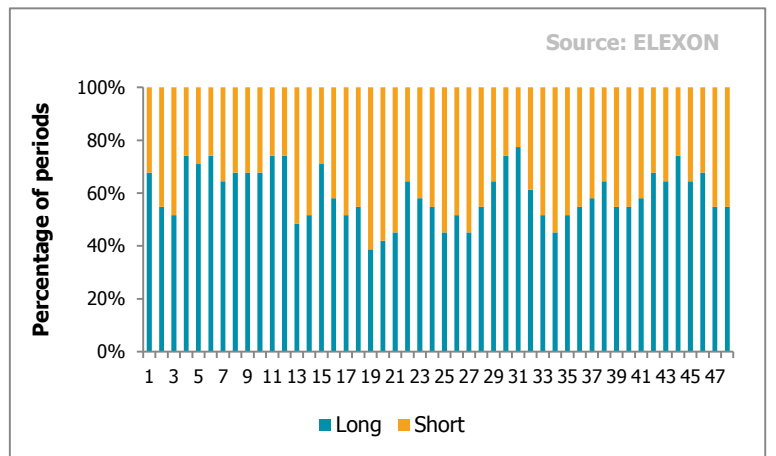
**Graph 1.6** shows system length by day, and **Graph 1.7** shows system length by Settlement Period for December. The system was long for 60% of Settlement Periods in December.

On 30 December, the system was long for 96% of Settlement Periods. On this day, the average NIV when the system was long was -338.67MWh. The average System Price in a long Settlement Period was £40.71/MWh on 30 December.

Settlement Period 19 had the highest number of short Settlement Periods, with 61% of them being short this month.



**1.6 Daily system length by day over the last month**



**1.7 System Length by Settlement Period**

# SYSTEM PRICE ANALYSIS REPORT

## 2 PARAMETERS

In this section, we consider a number of different parameters on the price. We consider:

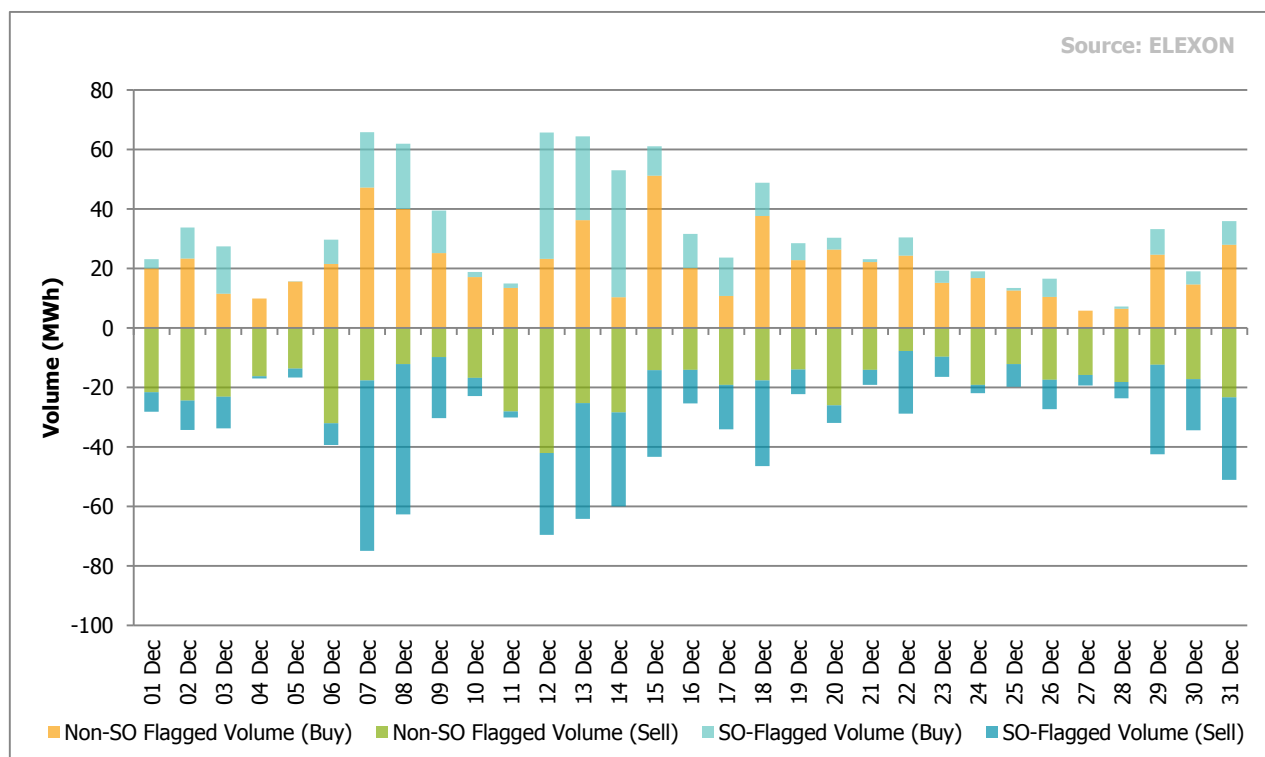
- The impact of Flagging balancing actions;
- The impact of the Replacement Price
- The impact of NIV Tagging;
- The impact of PAR Tagging;
- The impact of DMAT and Arbitrage Tagging; and
- How these mechanisms affect which balancing actions feed into the price.

### Flagging

The Imbalance Price calculation aims to distinguish between 'energy' and 'system' balancing actions. Energy balancing actions are those related to the overall energy imbalance on the system (the 'Net Imbalance Volume'). It is these 'energy' balancing actions which the Imbalance Price should reflect. System balancing actions relate to non-energy, system management actions (e.g. locational constraints).

Some actions are 'Flagged'. This means that they have been identified as potentially being 'system related', but rather than removing them completely from the price calculation (i.e. Tagging them) they may be re-priced, depending on their position in relation to the rest of the stack (a process called Classification). The System Operator (SO) flags actions when they are taken to resolve a locational constraint on the transmission network (SO-Flagging), or to correct short-term increases or decreases in generation/demand (CADL Flagging).

**Graph 2.1** shows the volumes of buy and sell actions in December 2018 that have been Flagged by the SO as being constraint related. On 8 December, 81% of sell volume was SO-Flagged.



**2.1 Daily volume of SO-Flagged/non-Flagged actions over the last month**

# SYSTEM PRICE ANALYSIS REPORT

47% of sell balancing actions taken in December had an SO-Flag, compared with 49% in November. 38% of SO-Flagged sell actions came from Balancing Service Adjustment Actions (BSAAs), 29% from Wind BMUs and 22% from CCGT BMUs. The average initial price (i.e. before any re-pricing) of a SO-Flagged sell action was -£24.30/MWh.

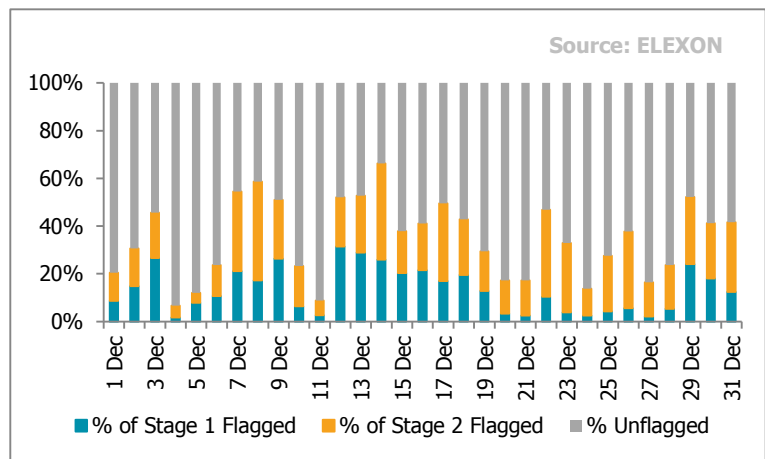
32% of buy balancing actions taken in November had an SO-Flag, compared to 37% in November. 62% of SO-Flagged buy actions came from BSAAs and 34% from CCGT BMUs. The average initial price of a SO-Flagged buy action was £84.80/MWh.

Any actions with a total duration of less than the CADL are flagged. CADL is currently set to 15 minutes; this will be changed to 10 minutes on 1 April 2019, depending approval from Ofgem. Please see section 4 of this report for analysis on the impact of a 10 minute CADL.

1.5% of buy actions and less than 1% of sell actions were CADL Flagged in December. The majority of CADL Flagged buy actions (92%) came from Pumped Storage BMUs. 53% of CADL Flagged sell actions came from Pumped Storage BMUs, with CCGT BMUs accounting for a further 42%.

SO-Flagged and CADL Flagged actions are known as 'First-Stage Flagged'. First-Stage Flagged actions may become 'Second-Stage Flagged' depending on their price in relation to other Unflagged actions. If a First-Stage Flagged balancing action has a more expensive price than the most expensive First-Stage Unflagged balancing action, it becomes Second-Stage Flagged. This means it is considered a system balancing action and becomes unpriced.

**Graph 2.2** shows First and Second-Stage Flagged action volumes as a proportion of all actions taken on the system. Note these are all the accepted balancing actions – only a proportion of these will feed through to the final price calculation.



**2.2 Flagged Balancing Volumes**

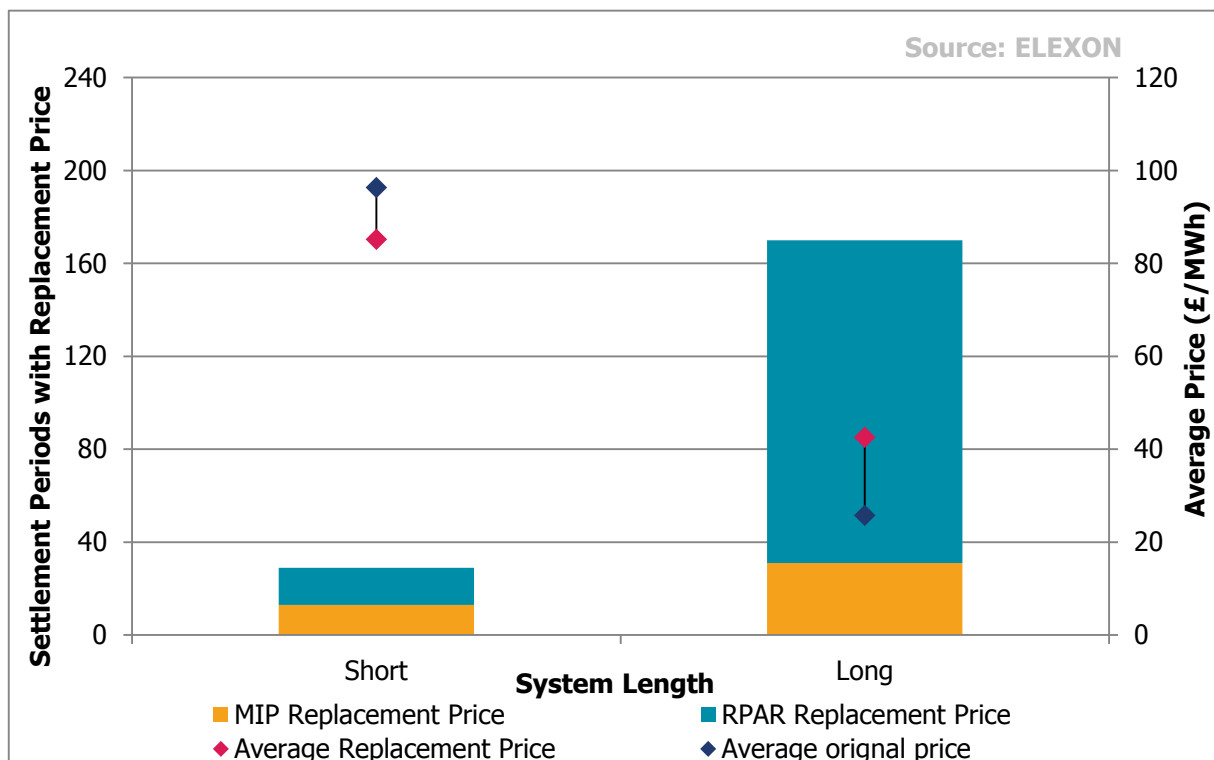
# SYSTEM PRICE ANALYSIS REPORT

## The Replacement Price

Any Second-Stage Flagged action volumes left in the NIV will be repriced using the Replacement Price. In total, 47% of sell actions in December were Flagged. Of these Flagged sell actions, 6% were assigned a Replacement Price.

The Replacement Price is either based on the Replacement Price Average Reference (RPAR currently based on the most expensive 1MWh of Unflagged actions); or if no Unflagged actions remain after NIV Tagging, the Market Index Price (MIP). In December, 155 Settlement Periods had a Replacement Price based on the RPAR and 44 Settlement Periods had a Replacement Price based on the MIP. However, the majority of Settlement Periods (87%) did not have a Replacement Price.

**Graph 2.3** displays the count of Settlement Periods which had a Replacement Price applied, split by the system length and if the Replacement Price was based on RPAR or the MIP. The graph also displays the average original and Replacement Price of Second-Stage Flagged actions.



**2.3 Average Replacement Price, original price of repriced actions and number of Settlement Periods with Replacement Price**

Sell actions will typically have their prices revised upwards by the Replacement Price for the purposes of calculating the System Price. In December, the average original price of a Second-Stage Flagged repriced sell action was £25.72/MWh and the average Replacement Price for sell actions (when the System was long) was £43.62/MWh.

33% of buy actions were Flagged; of these Flagged buy actions, 1% had the Replacement Price applied. Buy actions will typically have their prices revised downwards by the Replacement Price. The average original price of a buy action with the Replacement Price applied was £96.28/MWh, and the average Replacement Price was £84.28/MWh.

If there are no Unflagged actions remaining in the NIV, the Replacement Price will default to the MIP. This occurred in 31 long and 13 short Settlement Periods in December, compared to 29 long and 19 short Settlement Periods last month.

# SYSTEM PRICE ANALYSIS REPORT

## NIV and NIV Tagging

The Net Imbalance Volume (NIV) represents the direction of imbalance of the system – i.e. whether the system is long or short overall.

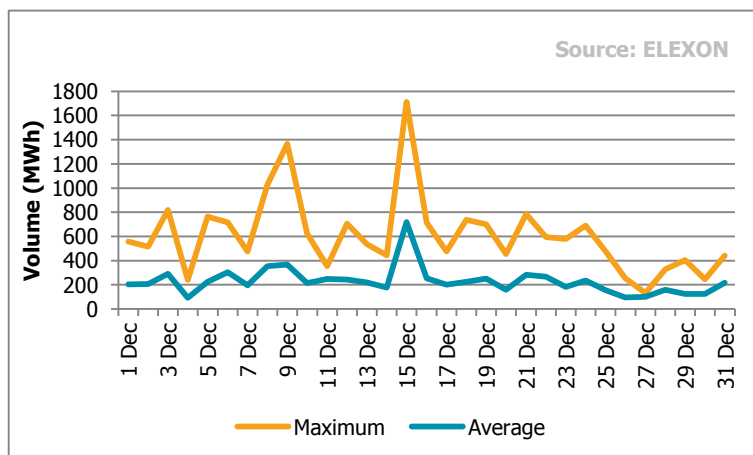
**Graph 2.4** shows the greatest and average NIV when the system was short, and **Graph 2.5** shows the greatest and average NIVs when the system was long. Note short NIVs are depicted as positive volumes and long NIVs are depicted as negative volumes.

In almost all Settlement Periods, the System Operator will need to take balancing actions in both directions (buys and sells) to balance the system. However, for the purposes of calculating an Imbalance Price there can only be imbalance in one direction (the Net Imbalance). 'NIV Tagging' is the process which subtracts the smaller stack of balancing actions from the larger one to determine the Net Imbalance. The price is then derived from these remaining actions.

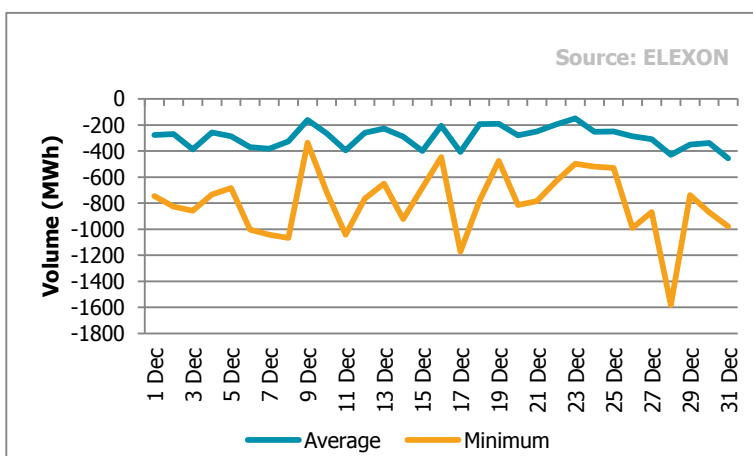
NIV Tagging has a significant impact in determining which actions feed through to prices. In December, 78% of volume was removed due to NIV tagging. The most expensive actions are NIV Tagged first; hence NIV Tagging has a dampening effect on prices when there are balancing actions in both directions.

The maximum short system NIV of the month (1,712MWh) was seen on 15 December in Settlement Period 35, where the System Price was £102.95/MWh.

The minimum long system NIV of the month was -1,581MWh, on 28 December 2018 during Settlement Period 42, when the System Price was £46.00/MWh.



2.4 Short system NIV over the last month



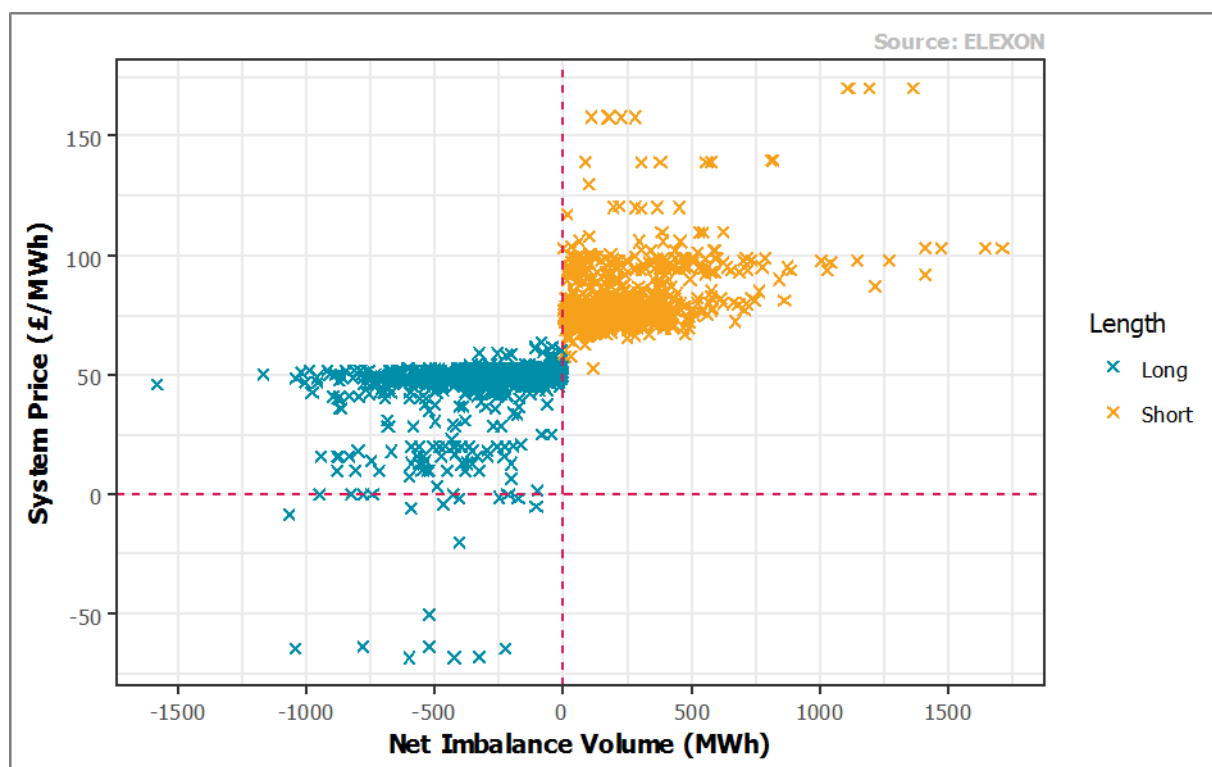
2.5 Long system NIV over the last month



# SYSTEM PRICE ANALYSIS REPORT

**Graph 2.6** displays a scatter graph of Net Imbalance Volume and System Prices. The dashed lines display a 0MWh NIV and a £0/MWh System Price.

From Settlement Periods 34 and 37 on 9 December, when the highest System Price of the month (£170.00/MWh) occurred, the NIV ranged from 1,110MWh to 1,365MWh.



**2.6 Net Imbalance Volume and System Price in the last month**

## PAR Tagging

PAR Tagging is the final step of the Imbalance Price calculation. It takes a volume weighted average of the most expensive 1MWh of actions left in the stack. The value of PAR has decrease from 50MWh to 1MWh from 1 November 2018 as part of BSC Modification P305.

Following the change of PAR from 1 November, PAR Tagging is active in almost all settlement periods. The only periods that are not affected by the new parameter would have a NIV of less than 1MWh.

During December, there were 2 Settlement Periods where PAR Tagging was inactive; 10 December 2018 in Settlement Period 29 and 17 December 2018 in Settlement Period 31. The NIV in Settlement Period 29 on 10 December 2018 was -0.775MWh and on 17 December 2018, Settlement Period 31, the NIV was -0.787MWh. On 10 December 2018, Settlement Period 29, the System Price was set by two Bids from a Coal BMU. On 17 December 2018, Settlement Period 31, the System Price was set by two Bids from a Coal BMU.

# SYSTEM PRICE ANALYSIS REPORT

## DMAT and Arbitrage Tagged Volumes

Some actions are always removed from the price calculation (before NIV Tagging). These are actions which are less than the De Minimis Acceptance Threshold (DMAT) Tagging or buy actions which are either the same price or lower than the price of sell actions (Arbitrage Tagging).

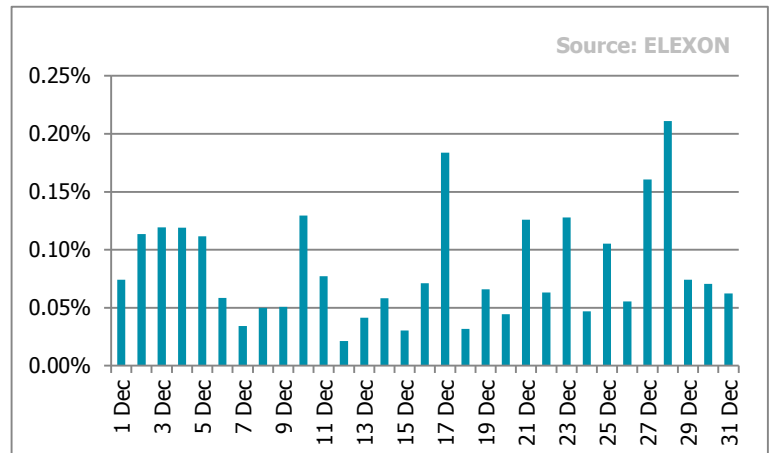
DMAT is currently set to 1MWh, this will be lowered to 0.1MWh on 1 April 2019 subject to Ofgem approval. Please see section 4 of this report for analysis on the impact of a 0.1MWh DMAT.

**Graph 2.7** shows the volumes of actions removed due to DMAT Tagging. 0.07% of total buy and sell volume was removed by DMAT Tagging in December. 39% of DMAT Tagged volume came from CCGT BMUs, whilst 18% came from BSAs.

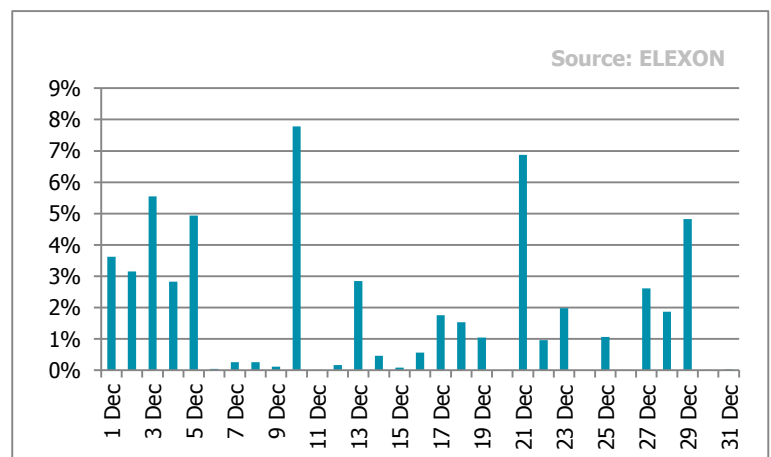
**Graph 2.8** shows the volumes of actions that were removed due to Arbitrage Tagging. 1.51% of total buy and sell volume was removed by Arbitrage Tagging in December. 47% of Arbitrage Tagged volume was from BSAs, with 28% from CCGT BMUs.

In December, the average initial price of an Arbitrage Tagged buy action was £29.24/MWh, and for a sell action was £51.77/MWh. The maximum price of an Arbitrage Tagged sell action was £145.00/MWh, and the lowest priced Arbitrage Tagged buy action was -£25.00/MWh.

On 10 December 2018, 3,240MWh of actions were Arbitrage Tagged, representing 7.78% of daily volume. The average price of an Arbitrage Tagged buy action was £32.54/MWh, and for a sell action was £48.75/MWh.



2.7 Daily percentage of DMAT Tagged volume over the last month



2.8 Daily percentage of Arbitrage Tagged volume over the last month

# SYSTEM PRICE ANALYSIS REPORT

## 3 BALANCING SERVICES

### Short Term Operating Reserve (STOR) costs and volumes

This section covers the balancing services that the System Operator (SO) takes outside the Balancing Mechanism that can affect the price.

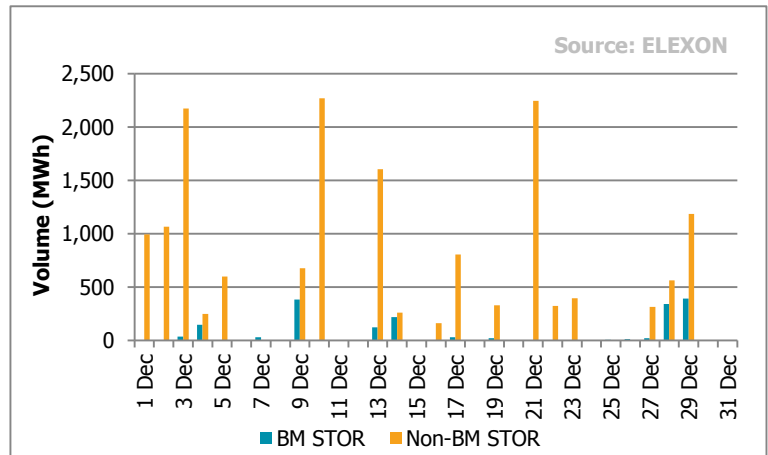
In addition to Bids and Offers available in the Balancing Mechanism, the SO can enter into contracts with providers of balancing capacity to deliver when called upon. These additional sources of power are referred to as reserve, and most of the reserve that the SO procures is called Short Term Operating Reserve (STOR).

Under STOR contracts, availability payments are made to the balancing service provider in return for capacity being made available to the SO during specific times (STOR Availability Windows). When STOR is called upon, the SO pays for it at a pre-agreed price (its Utilisation Price). Some STOR is dispatched in the Balancing Mechanism (BM STOR) while some is dispatched separately (Non-BM STOR).

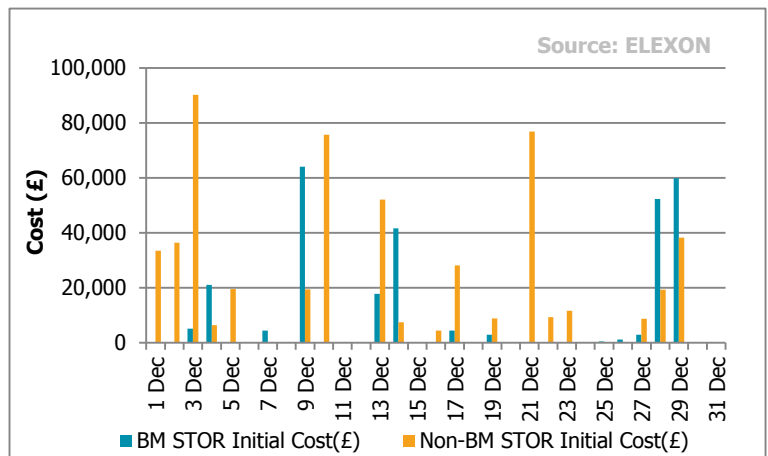
**Graph 3.1** gives STOR volumes that were called upon during the month – split into BM STOR and non-BM STOR. **Graph 3.2** shows the utilisation costs of this capacity. 90% of the total STOR utilised in November came from outside of the Balancing Mechanism.

The average Utilisation Price for STOR capacity in December was £45.87/MWh (£159.00/MWh for BM STOR and £33.67/MWh for non-BM STOR).

On 9 December, 382MWh of BM STOR volume was called at an utilisation cost of £64,002. This represented 22% of the total BM STOR volume in December.



3.1 Daily STOR vs Non-BM STOR volume across the last month



3.2 Daily STOR vs Non-BM STOR utilisation costs across the last month

# SYSTEM PRICE ANALYSIS REPORT

## De-Rated Margin, Loss of Load Probability and the Reserve Scarcity Price

There are times when the Utilisation Prices of STOR plants are uplifted using the **Reserve Scarcity Price (RSVP)** in order to calculate System Prices. The RSVP is designed to respond to capacity margins, so rises as the system gets tighter (the gap between available and required generation narrows). It is a function of **De-Rated Margin (DRM)** at Gate Closure, the likelihood that this will be insufficient to meet demand (the **Loss of Load Probability, LoLP**) and the **Value of Lost Load (VoLL, set at £6,000/MWh from 1 November 2018)**.

**Graph 3.3** shows the daily minimum and average Gate Closure DRMs for December 2018.

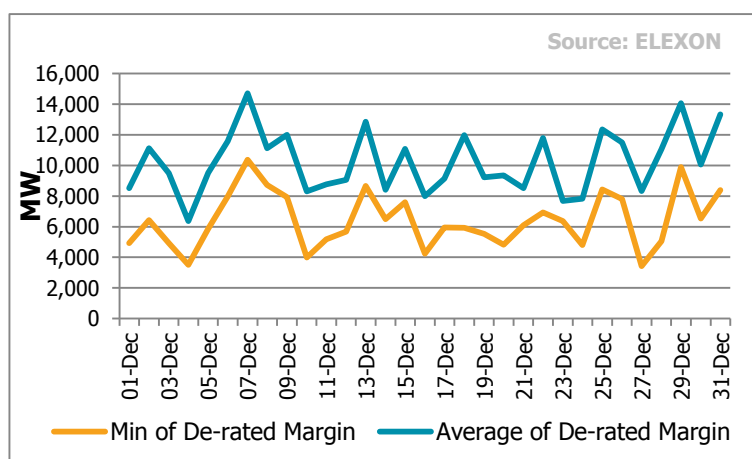
The System Operator has determined a dynamic relationship between each DRM and the LoLP<sup>2</sup>, which will determine the RSVP.

The minimum DRM in December was 3,422MW on 27 December in Settlement Period 35 (compared to 1,880MW in November). This DRM corresponded to a LoLP of 0 and RSVP of £0.02/MWh (see **Table 3.4**).

The RSVP re-prices STOR actions in the Imbalance Price calculation if it is higher than the original Utilisation Price.

No non-BM STOR actions were re-priced using the RSVP in December.

With a pre-November 2018 VoLL of £3,000/MWh, no actions would have been re-priced by the RSVP.



**3.3 Minimum and average DRMs**

## 3.4 Top 5 LoLPs and RSVPs

Date	SP	DRM	LoLP	RSVP	RSVP Used	System Length	System Price
27/12/2018	35	3,421.86	0.0000	0.02	No	Short	129.88
04/12/2018	37	3,506.86	0.0000	0.02	No	Long	54.00
04/12/2018	36	3,559.37	0.0000	0.02	No	Long	54.00
27/12/2018	37	3,604.18	0.0000	0.02	No	Long	52.75
04/12/2018	35	3,637.48	0.0000	0.01	No	Long	54.00

<sup>2</sup> The System Operators methodology for LoLP is set out in the LoLP Methodology statement: [https://www.elexon.co.uk/wp-content/uploads/2015/10/Loss\\_of\\_Load\\_Probability\\_Calculation\\_Statement\\_v1.0.pdf](https://www.elexon.co.uk/wp-content/uploads/2015/10/Loss_of_Load_Probability_Calculation_Statement_v1.0.pdf)

# SYSTEM PRICE ANALYSIS REPORT

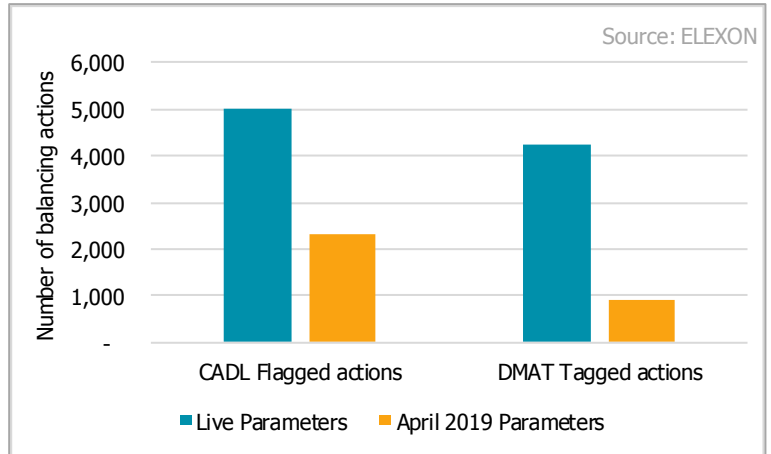
## 4 DMAT AND CADL CHANGES

As a result of the 2018 parameter reviews DMAT and CADL are due to change on 1 April 2019, pending approval by Ofgem.

DMAT will reduce from 1MWh to 0.1MWh and CADL from 15 minutes to 10 minutes.

We have recalculated System Prices in December 2018 using the new parameters. This section compares live System Prices to System Prices calculated with the April 2019 parameters.

**Graph 4.1** shows how these changes will reduce the number of actions that are CADL Flagged and DMAT Tagged during the Imbalance Price calculation.

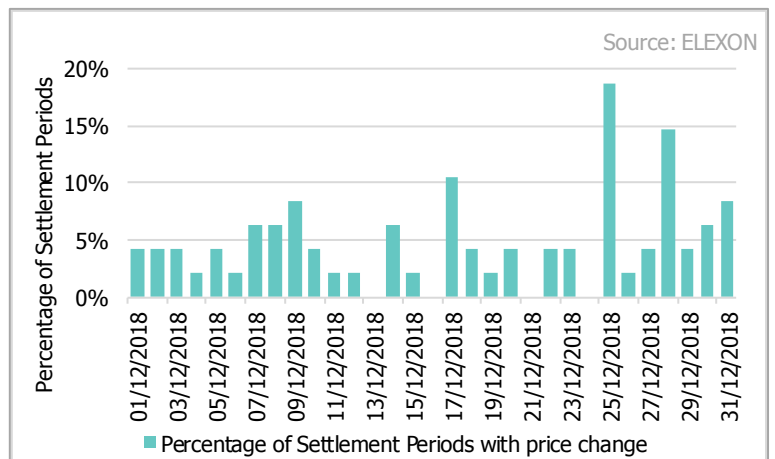


**4.1 Number of balancing actions affected by DMAT and CADL**

The number of CADL flagged BOAs will reduce by 53%.

The number of DMAT Tagged actions will reduce by 78%. Only actions less than 0.1MWh will be DMAT tagged in the April 2019 scenario, this means that the volume of DMAT tagged actions will reduce by 98%.

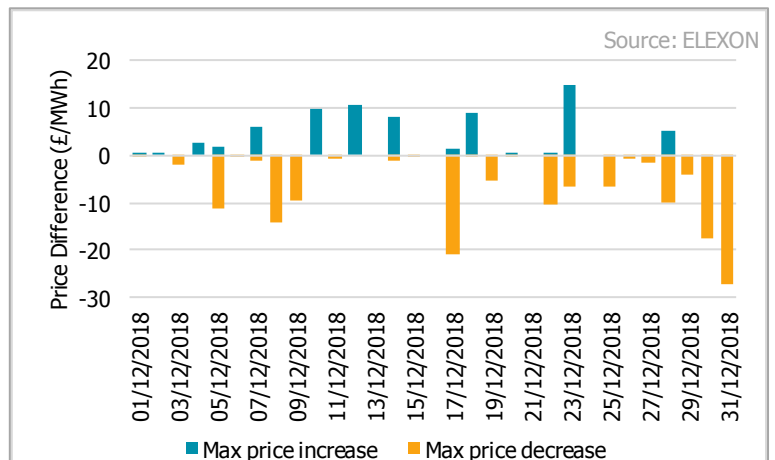
**Graph 4.2** show the percentage of Settlement Periods where the System Price is different with April 2019 parameters. Over the month, the System Price would have been different in 5% of Settlement Periods. On 25 December 2018, the System Price would have been different in 19% of Settlement Periods.



**4.2 Percentage of Settlement Prices with difference in System Price**

These price differences mean that the average System Price, when the system is short, would have been £0.06/MWh higher than the live average short System Price. When the market is long, the average long System Price would have been £0.19/MWh lower.

The daily maximum price differences are shown in **Graph 4.3**. The maximum difference in December 2018 was £27.45/MWh, in Settlement Period 14 on 31 December 2018. This price difference was as a result of the change to the CADL.



**4.3 Maximum difference in System Price between the live prices and April 2019 scenario**

# SYSTEM PRICE ANALYSIS REPORT

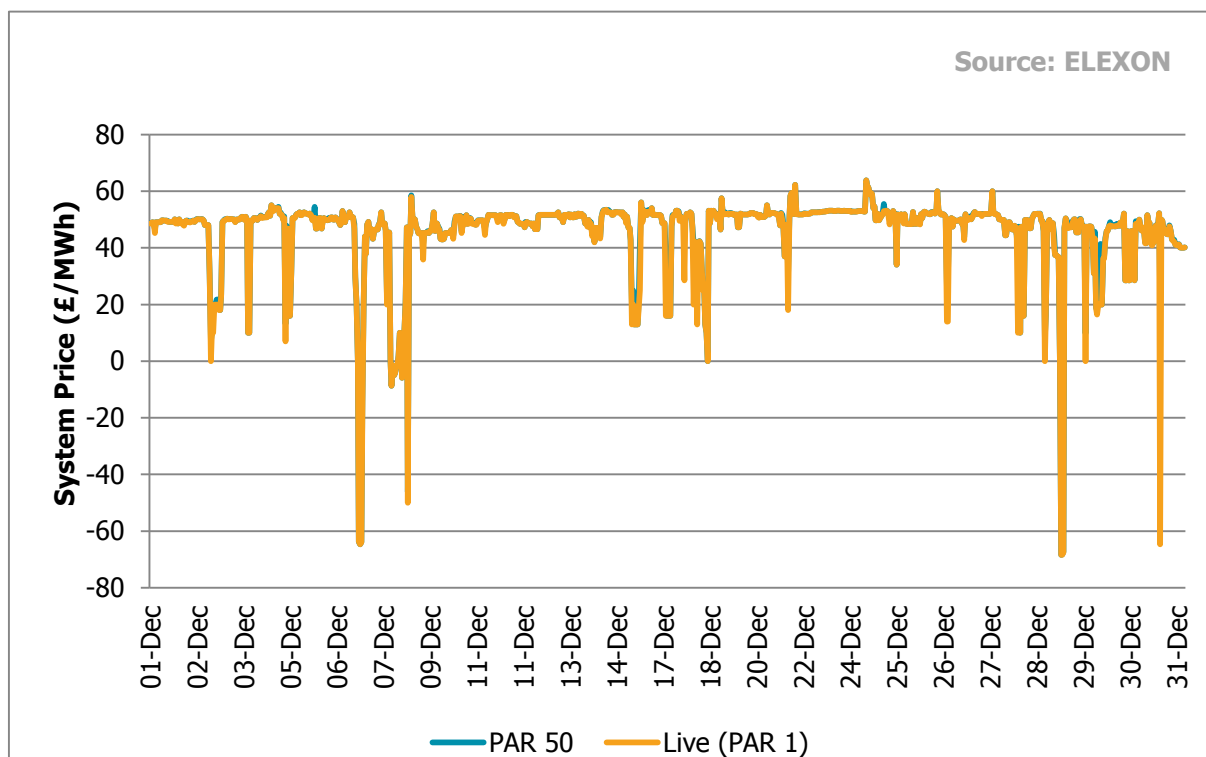
## 5 P305 - PAR ANALYSIS

This section compares live prices with a **PAR 50 pricing scenario**. From 1 November 2018, the System Price calculation parameters changed as part of BSC Modification P305. The changes were:

- A reduction in the PAR value from 50MWh to 1MWh;
- The introduction of a 'dynamic' LoLP function; and
- An increase in the VoLL from £3,000/MWh to £6,000/MWh. The PAR 50 scenario uses a VoLL of £3,000/MWh in the RSVP function.

This section looks at the difference in System Prices between a PAR 50 and a PAR 1 scenario.

Live System Prices when the system is long are the same or lower compared to PAR 50, and when the system is short prices are the same or higher. **Graph 5.1** compares live System Prices with prices recalculated using the PAR 50 scenario when the system was long.



**5.1 Live prices vs PAR 50 prices: Prices when the System was long**

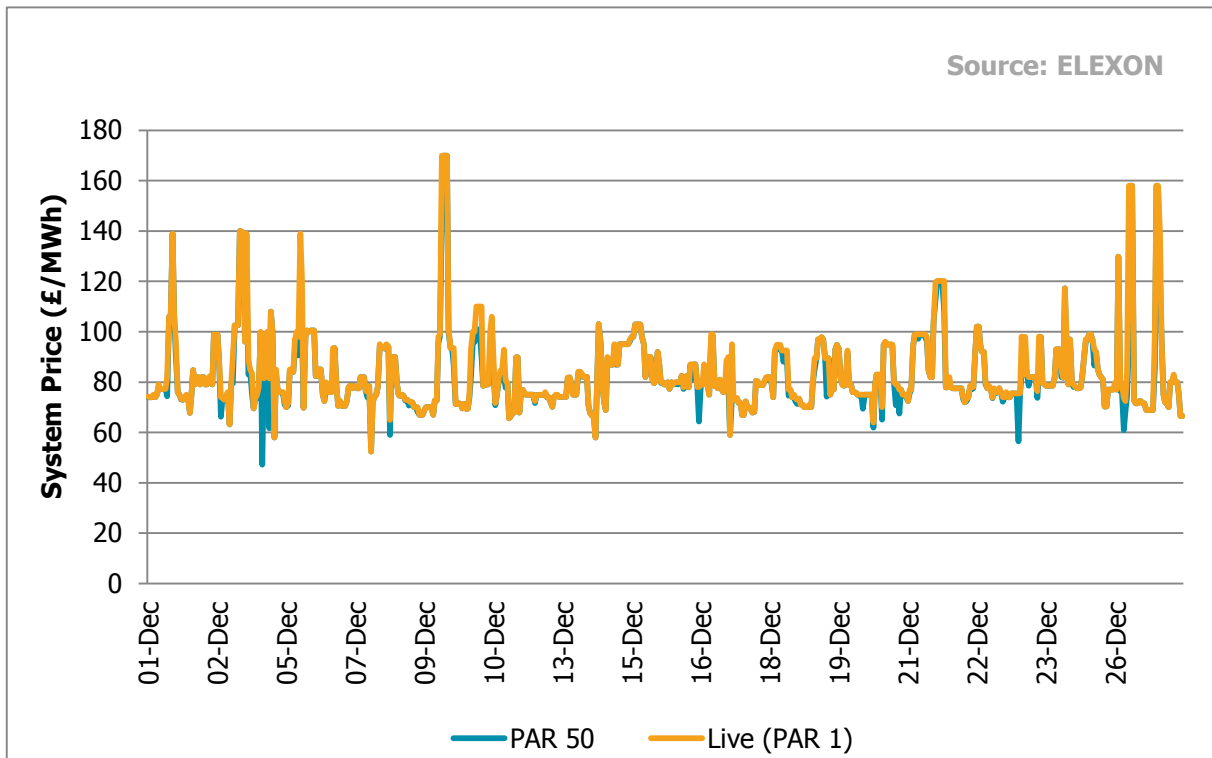
System Prices were different in 39% of Settlement Periods, with 11% of these changes greater than £1/MWh. System Prices are an average of £0.51/MWh lower when the system was long, and £1.36/MWh higher when the system was short compared to a PAR 50 scenario.

When the system was long and System Prices changed, price changes were less than £1/MWh in 86% of Settlement Periods, and greater than £5/MWh in 5% of Settlement Periods. The biggest shift from the PAR 50 to the live scenario in price was -£86.67/MWh (Settlement Period 19 on 31 December 2018), when the price would have been £22.01/MWh under a PAR 50 scenario compared to the current live System Price of -£64.66/MWh.

# SYSTEM PRICE ANALYSIS REPORT

**Graph 5.2** compares live System Prices with PAR 50 prices when the system was short. Prices were higher in 40% of short Settlement Periods compared to the PAR 50 scenario; 24% changed by more than £5/MWh and 11% by more than £10/MWh. The biggest difference in price from the PAR 50 to the live scenario was £58.88/MWh (Settlement Period 34 on 28 December 2018); the price would have been £99.12/MWh under the PAR 50 scenario, compared to the current live System Price of £158.00/MWh.

Under the PAR 50 scenario, there would be 47 Settlement Periods in December 2018 with prices greater than £100/MWh, compared to 50 periods under the current live scenario.



**5.2 Live prices vs PAR 50 prices: Prices when the System was short**

# SYSTEM PRICE ANALYSIS REPORT

## 6 GLOSSARY

Term	Abbrev.	Definition
<b>Bid</b>		A proposed volume band and price within which the registrant of a BM Unit is willing to reduce generation or increase consumption (i.e. a rate below their FPN).
<b>Bid/Offer Acceptance</b>	<b>BOA</b>	A Bid or Offer within a given Settlement Period that was Accepted by the SO. BOAs are used in the Imbalance Price calculation process e.g. to calculate NIV or the System Price.
<b>Offer</b>		A proposed volume band and price within which the registrant of a BM Unit is willing to increase generation or reduce consumption (i.e. a rate above their FPN).
<b>System Price</b>		A price (in £/MWh) calculated by BSC Central Systems that is applied to imbalance volumes of BSC Parties. It is a core component of the balancing and settlement of electricity in GB and is calculated for every Settlement Period. It is subject to change via Standard Settlement Runs.
<b>Replacement Price</b>		A price (in £/MWh) calculated by BSC Central Systems that is applied to volumes that are not priced during the imbalance pricing process (detailed in BSC Section T) It is calculated for every Settlement Period, and is subject to change via Standard Settlement Runs.
<b>Utilisation Price</b>		The price (in £/MWh) sent by the SO in respect of the utilisation of a STOR Action which: (i) in relation to a BM STOR Action shall be the Offer Price; and (ii) in relation to a Non-BM STOR Action shall be the Balancing Services Adjustment Cost.
<b>Market Index Price</b>	<b>MIP</b>	The Market Index Price reflects the price of wholesale electricity in the short-term market (in £/MWh). You can find an explanation of how it is calculated and used in the Market Index Definition Statement (MIDS).
<b>Reserve Scarcity Price</b>	<b>RSVP</b>	Both accepted BM and non-BM STOR Actions are included in the calculation of System Prices as individual actions, with a price which is the greater of the Utilisation Price for that action or the RSVP. The RSVP function is based on the prevailing system scarcity, and is calculated as the product of two following values: <ul style="list-style-type: none"> <li>the Loss of Load Probability (LoLP), which will be calculated by the SO at Gate Closure for each Settlement Period; and</li> <li>the Value of Lost Load (VoLL), a defined parameter currently set to £6,000/MWh.</li> </ul>
<b>Replacement Price Average Reference</b>	<b>RPAR</b>	The RPAR volume is a set volume of the most expensive priced actions remaining after NIV tagging, and is currently 1MWh. The volume-weighted average of these actions, known as the Replacement Price, is used to provide a price for any remaining unpriced actions prior to PAR Tagging.
<b>Long</b>		In reference to market length, this means that the volume of Accepted Bids exceeds that of Accepted Offers.
<b>Short</b>		In reference to market length, this means that the volume of Accepted Offers exceeds that of Accepted Bid.
<b>Net Imbalance Volume</b>	<b>NIV</b>	The imbalance volume (in MWh) of the total system for a given Settlement Period. It is derived by netting buy and sell Actions in the Balancing Mechanism. Where NIV is positive, this means that the system is short and would normally result in the SO accepting Offers to increase generation/decrease consumption. Where NIV is negative, the system is long and the SO would normally accept Bids to reduce generation/ increase consumption. It is subject to change between Standard Settlement Runs.
<b>Price Average Reference</b>	<b>PAR</b>	The PAR volume is a set volume of the most expensive priced actions remaining at the end of the System Price calculation, and is currently 1MWh.



# SYSTEM PRICE ANALYSIS REPORT

## APPENDIX 1 – SYSTEM PRICES IN 2018

In this section, one of our Market Analysts, Nick Baker, takes a detailed look at System Prices across 2018.

In 2018 the lowest System Price (-£150/MWh) in a Settlement Period, since the implementation of BSC Modification P305 in November 2015, occurred in February 2018. The second part of the P305 System Price calculation changes were also introduced from November 2018.



[nick.baker@elexon.co.uk](mailto:nick.baker@elexon.co.uk)

In 2018 the average System Price when the System was long was £41.39/MWh, an increase from £30.77/MWh in 2017. When the System was short, the average System Price was £78.84/MWh.

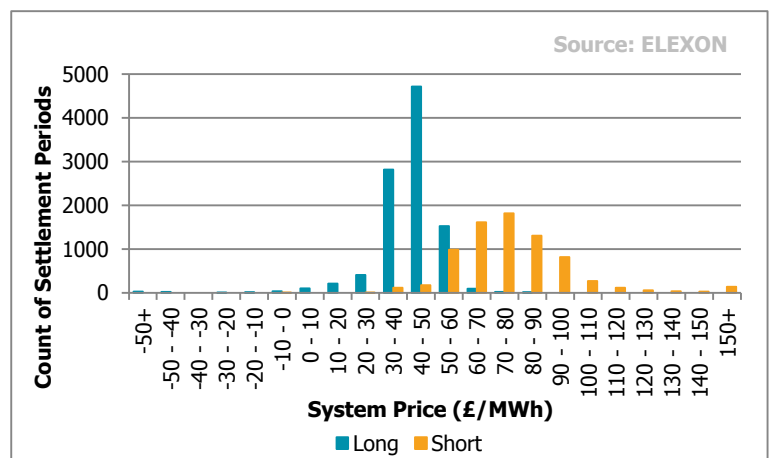
**Graph A1** shows the frequency of System Prices in 2018. Regardless of system length, in 59% of Settlement Periods the System Price was between £30/MWh and £60/MWh. When the System was long, 47% of prices were between £40/MWh and £50/MWh. 46% of System Prices were between £60/MWh and £80/MWh when the System was short. When short, 9% of System Prices were greater than £100/MWh.

The frequency of high and low System Prices is given in **Graph A2**. Out of 17,520 Settlement Periods in 2018, 103 (0.6%) had negative System Prices; this is over double the 51 seen in 2017.

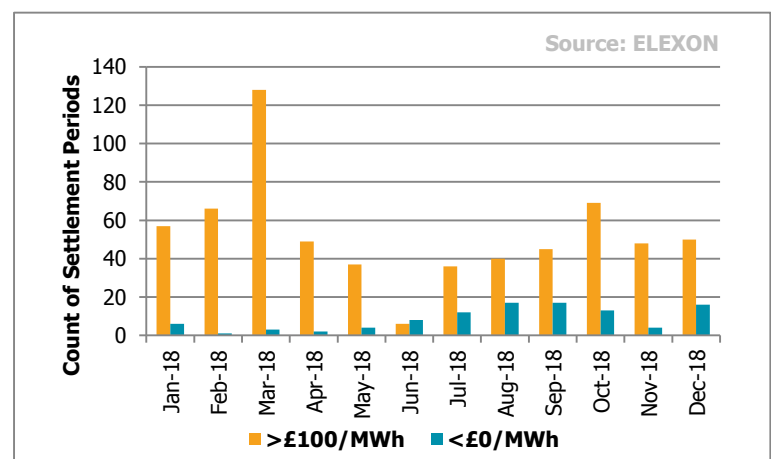
The lowest System Price of the year was -£150/MWh in Settlement Period 16 on 25 February 2018.

There were 631 Settlement Periods in 2018 with a System Price exceeding £100/MWh, 20% of these occurred in March.

The highest System Price of the year was £990/MWh in Settlement Period 27 on 1 March 2018. The highest 72 System Prices of the year occurred between 28 February and 3 March 2018. Great Britain had unseasonably cold weather at this time from what was known as the 'Beast from the East'.



**A1. Frequency of System Prices in 2018**



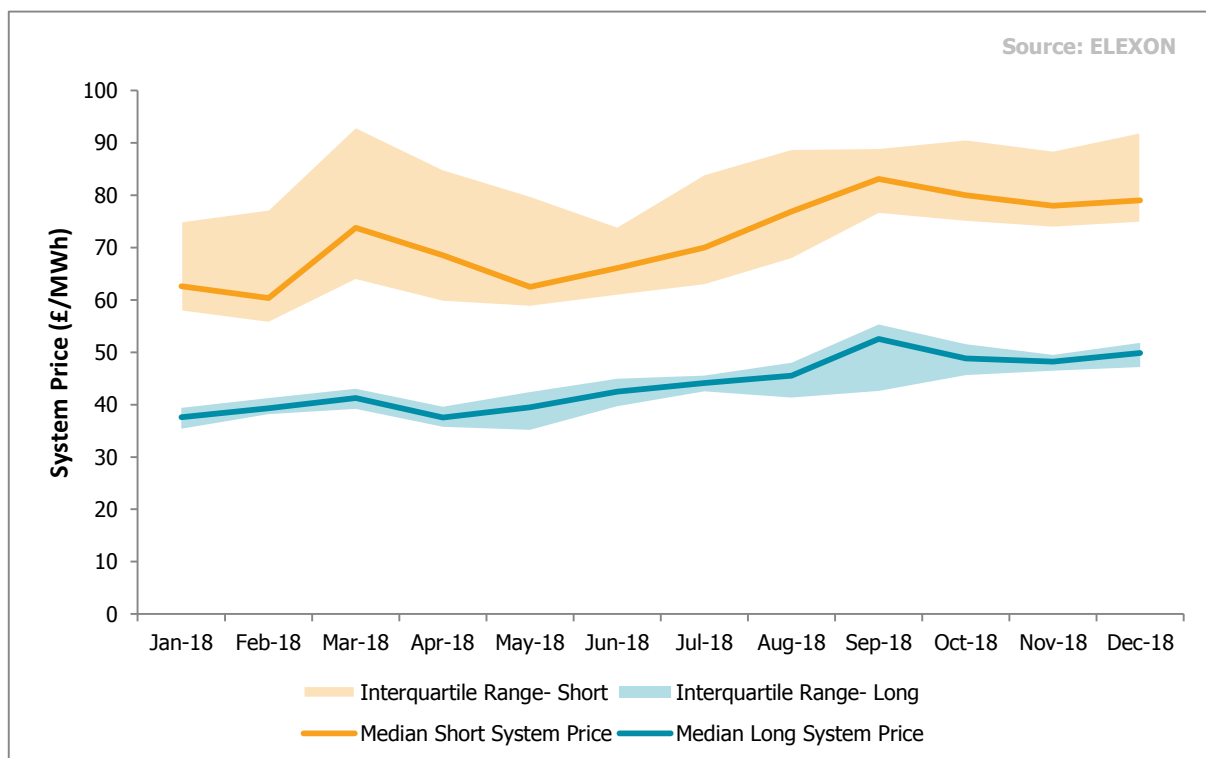
**A2. Frequency of high and low System Prices in 2018**

# SYSTEM PRICE ANALYSIS REPORT

**Graph A3** displays the spread of System Prices in each month throughout 2018. The median System Price per month is shown by length. The shaded area represents difference between the lower and upper quartiles (25th and 75th percentile respectively) of System Prices within the respective month.

The median short System price varied between a low of £60.32/MWh in February 2018, up to a high of £83.10/MWh in September 2018. Long median System Prices varied between £37.55/MWh in April 2018 and £52.53/MWh in September 2018. The largest Interquartile Range for short System Prices was £29.00/MWh in March 2018, which was when high short System Prices were seen due to the 'Beast from the East'.

September 2018 was the only month in 2018 when the Interquartile Range for long System Prices was greater than that for short System Prices (£12.87/MWh for long, £12.37/MWh for short). The System Price regardless of length in September 2018 was £62.55/MWh, which was the third highest of the year (behind £69.09/MWh in March and £63.25/MWh in October).



**A3. Median System Price and Interquartile Range by month in 2018**

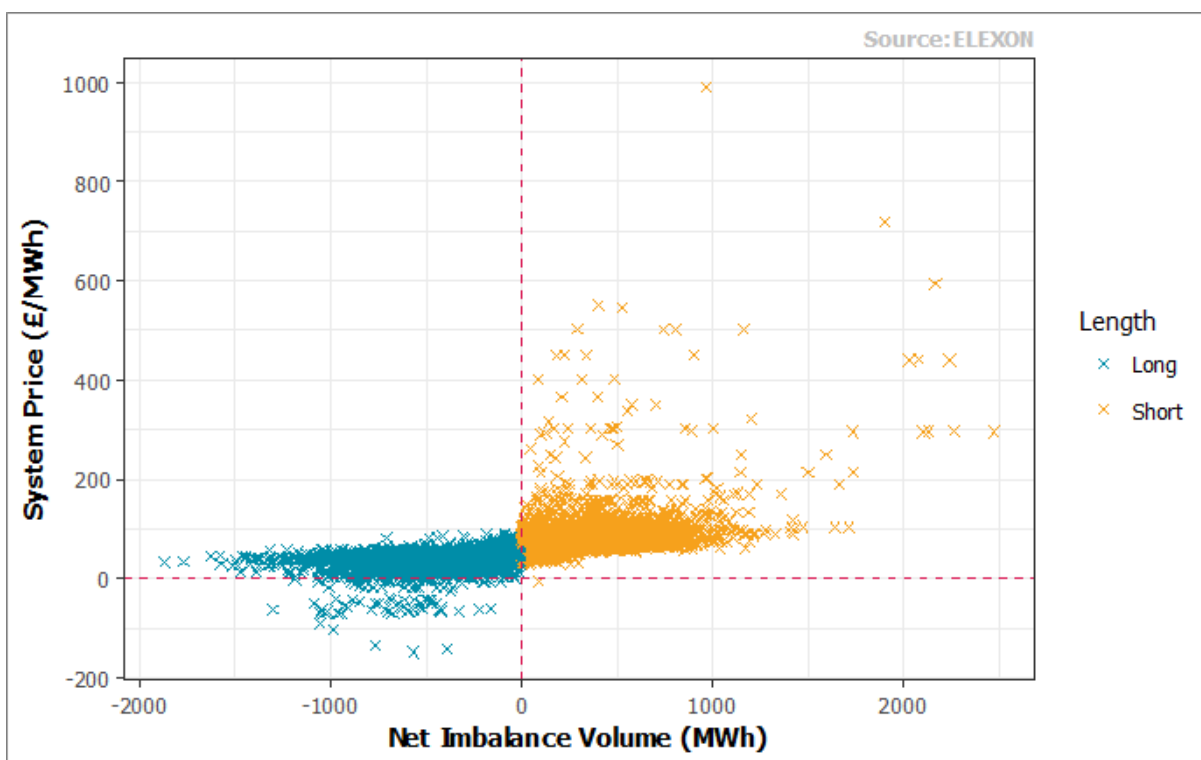
# SYSTEM PRICE ANALYSIS REPORT

**Graph A4** displays a scatter graph of Net Imbalance Volume (NIV) and System Prices in 2018. The dashed lines display a 0MWh NIV and a £0/MWh System Price.

The maximum short system NIV of 2018 (2,473MWh) was seen on 1 March in Settlement Period 20. This was also the shortest NIV since the implementation of BSC Modification P305. There were -154MWh of sell actions in this Settlement Period, and 2,629MWh of buy actions from Offers and system buy actions in this Settlement Period. The System Price was £295/MWh in this Settlement Period.

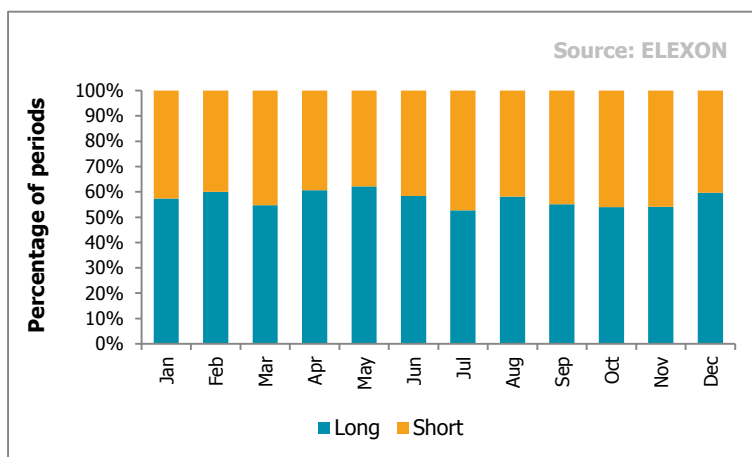
The lowest NIV of 2018 was -1,869MWh in Settlement Period 16 on 2 January 2018. The System Price in this Settlement Period was £31.22/MWh.

In Settlement Period 9 on 18 September, the System was short with a NIV of 90.63MWh, and the System Price was negative (-£6.25/MWh). [ELEXON's Insight article](#) provided further analysis on this occurrence.



**A4. Net Imbalance Volume and System Price in 2018**

**Graph A5** shows the system length by month in 2018. In all months the majority of Settlement Periods were long. 57% of Settlement Periods were long in 2018. July 2018 had the highest percentage (47%) of short Settlement Periods, whilst May 2018 had the lowest (38%).



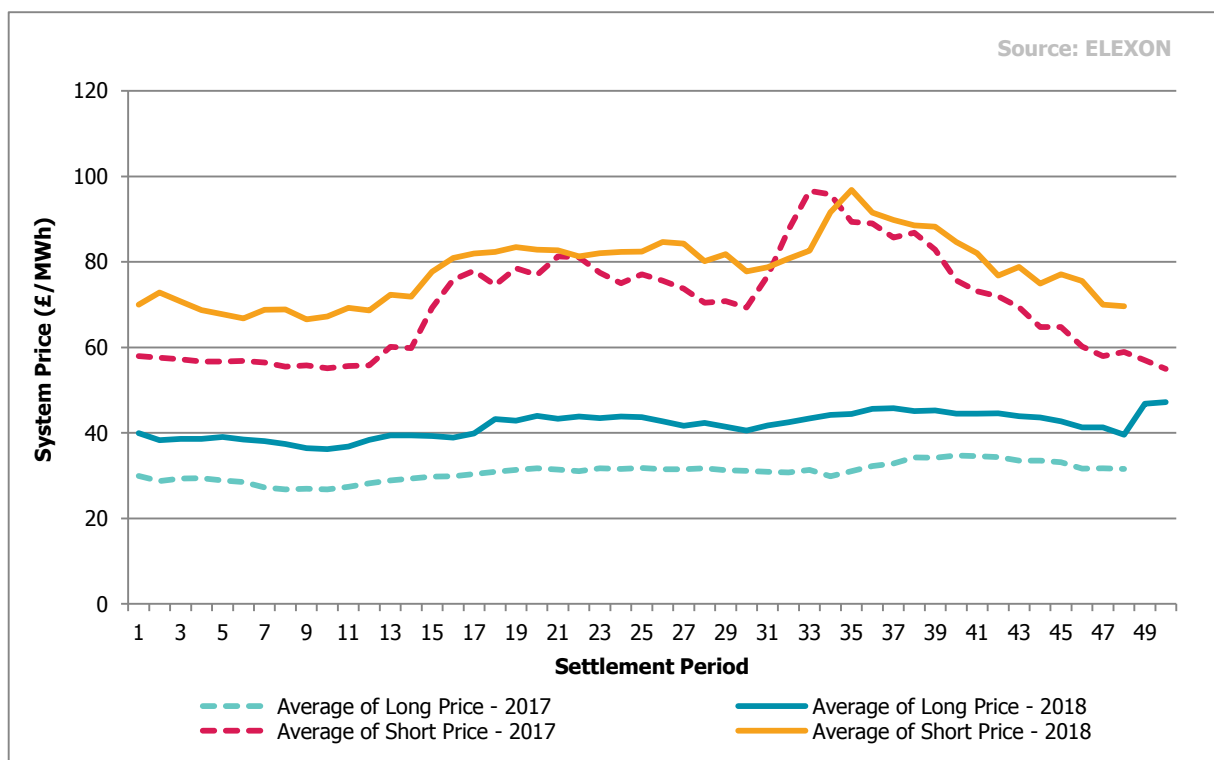
**A5. System length by month in 2018**

# SYSTEM PRICE ANALYSIS REPORT

**Graph A6** gives the average System Price by Settlement Period for 2018, and shows 2017 data for comparison. The evening peak in short System Prices in 2018, reached a maximum in Settlement Period 35, where the average price was £96.80/MWh. In 2017, short System Prices reached a maximum in Settlement Period 33, where the average price was £96.61/MWh.

The average short System Prices in 2017 show two peaks, with the morning average System Price increasing by £9.38/MWh between Settlement Period 14 and 15. The morning peak is less obvious in 2018, with prices increasing by £5.82/MWh between Settlement Period 14 and 15.

Average long Settlement Period System Prices in 2018 were higher in every Settlement Period compared to 2017, with prices ranging between £36.23/MWh and £47.22/MWh. In 2017, average long Settlement Period System Prices ranged between £26.77/MWh and £34.74/MWh.



**A6. Average System Price by Settlement Period in 2017 and 2018**