

Urgent Modification Consultation Responses

P447 'Avoiding impact of Winter Contingency actions on cash-out prices'

This Report Phase Consultation was issued on 5 October 2022, with responses invited by 12 October 2022.



Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

Consultation Respondents

Respondent	Role(s) Represented
Drax	Generator, Supplier, ECVNA, MVRNA
Centrica	Generator, Supplier, Non Physical Trader, Virtual Lead Party
Uniper	Generator, Interconnector User, ECVNA, MVRNA

Question 1: Do you agree with the Panel's unanimous recommendation that P447 should be approved?

Summary

Yes	No	Neutral/No Comment	Other
3	0	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	We agree that P447 should remove the risk of distorting the Cash-Out Price in the event that Winter Contingency Services are dispatched. Without this modification there would be the risk that the Cash-Out Price could be set at £0/MWh when Winter Contingency Services are called upon. This in turn reduces the risk of further price volatility or perverse incentives to not make generation available. We agree with the proposer that the modification better facilitates applicable objectives (c) related to competition as the modification addresses a potential distortion of the cash out price and (d) as it promotes efficiency in the balancing arrangements by ensuring that as a last resort the Winter Contingency Service can be efficiently dispatched. We believe that the modification is neutral against the other BSC applicable objectives.
Centrica	Yes	None provided
Uniper	Yes	It would remove a significant issue with the current Winter Contingency Contracts whereby a very low (zero) imbalance price could be set at a time of system stress, giving totally inappropriate signals to the market.

Question 2: Do you agree with the Panel that the redlined changes to the BSC deliver the intention of P447?

Summary

Yes	No	Neutral/No Comment	Other
3	0	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	We agree and have no further comments.
Centrica	Yes	None provided
Uniper	Yes	T 1.2 e) ix should probably refer to a Balancing Services Adjustment Action, given that this is the mechanism for feeding the new price into settlement. However, on the basis that that approach is a workaround, then the present drafting still reflects the intention of the modification.

Question 3: Do you agree with the Panel that the redlined changes to the Code Subsidiary Documents deliver the intention of P447?

Summary

Yes	No	Neutral/No Comment	Other
3	0	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	We agree and have no further comments.
Centrica	Yes	None provided
Uniper	Yes	None provided

Question 4: Do you agree with the Panel's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
3	0	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	We agree and have no further comments.
Centrica	Yes	None provided
Uniper	Yes	This needs to be implemented ahead of any possible implementation of the Winter Contingency Contracts

Question 5: Do you agree with the Panel's initial view that P447 should not be treated as a Self-Governance Modification?

Summary

Yes	No	Neutral/No Comment	Other
3	0	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	We agree P447 shouldn't be treated as a self-governance modification due to the impacts on competition and management of network emergencies.
Centrica	Yes	None provided
Uniper	Yes	The materiality is too high.

Question 6: Do you agree with the Panel's initial view that P447 does not impact the EBGL Article 18 Terms and Conditions related to balancing held within the BSC?

Summary

Yes	No	Neutral/No Comment	Other
3	0	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	We agree and have no further comments.
Centrica	Yes	None provided
Uniper	Yes	None provided

Question 7: Do you have any comments on the impact of P447 on the EBGL objectives?

Summary

Yes	No	Neutral/No Comment	Other
0	3	0	0

Responses

Respondent	Response	Rationale
Drax	No	We have no further comments.
Centrica	No	None provided
Uniper	No	None provided

Question 8: Will P447 impact your organisation?

Summary

Yes	No	Neutral/No Comment	Other
2	1	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	Drax Power Limited is one of the parties contracted to provide the Winter Contingency service.
Centrica	No	None provided
Uniper	Yes	It will be beneficial in terms of avoiding misleading imbalance prices in the market. We rely on efficient wholesale markets and this will prevent a potential distortion in market pricing.

Question 9: How much will it cost your organisation to implement P447?

Summary

High	Medium	Low	None	Other
0	0	1	2	0

Responses

Respondent	Response	Rationale
Drax	None	There will be no material implementation costs as a direct result of P447.
Centrica	None	None provided
Uniper	Very low/ none	None provided

Question 10: What will the ongoing cost of P447 be to your organisation?

Summary

High	Medium	Low	None	Other
0	0	1	2	0

Responses

Respondent	Response	Rationale
Drax	None	There will be no material ongoing costs as a direct result of P447.
Centrica	None	None provided
Uniper	Very low / None	None provided

Question 11: Do you agree, subject to Ofgem approving P447, that a consultation or Workgroup following the implementation of P447 is no longer required as Ofgem directed this consultation be issued?

Summary

Yes	No	Neutral/No Comment	Other
3	0	0	0

Responses

Respondent	Response	Rationale
Drax	Yes	We don't believe a consultation or Workgroup will be required following the implementation of P447, as the solution is clear, delivers positive outcomes against the BSC Objectives and Consumer Benefit Areas. Additionally, the modification has limited impact insofar as it relates to a specific contractual agreement that comes to an end in March 2023.
Centrica	Yes	None provided
Uniper	Yes	None provided

Question 12: Do you have any further comments on P447?

Summary

Yes	No
1	2

Responses

Respondent	Response	Rationale
Drax	No	N/A
Centrica	Yes	<p>Whilst Centrica accepts that Modification Proposal 447 does achieve its stated objectives, it is, in Centrica's opinion, that the NG ESO Modification Proposal stems from:</p> <p>a) NG ESO's chosen contract structure with the Winter Contingency counterparty, under which NG ESO has sought to pay for the Winter Contingency contract with all cash flows outside of Settlements.</p> <p>b) NG ESO's lack of understanding of the cash-out calculation as defined in the BSC, particularly in respect of secondary tagging.</p> <p>Rather than to contractually oblige the Winter Contingency counterparties to submit £0/MWh Offer priced volumes, the NG ESO Winter Contingency contracts could alternatively have stipulated an Offer price at an appropriate £/MWh level (e.g. VoLL) and in the same Winter Contingency contracts, specified a reconciliation of the aggregate BOA cashflows to actual fuel costs.</p> <p>The latter approach would ensure that, if instructed, the accepted Contingency units' volumes would sit at the correct (higher) end of the accepted offer volumes in price order. In which case, the Winter Contingency volumes would only be secondary tagged into the cash-out calculation for a Settlement Period if a higher priced, energy tagged, offer accepted volume existed.</p> <p>The NG ESO Modification Proposal, if implemented correctly, will ensure that the NIV volume, PAR1 volume and cash-out price are correctly calculated in Settlement calculations for all settlement periods where Winter Contingency units are under BOA. However it is clear that NG ESO's Modification Proposal only seeks to ensure that the Settlements</p>

Respondent	Response	Rationale
		<p>cash-out calculation and cashflows are correct for the II run and onwards. (approx. D+7)</p> <p>The Modification Proposal does not seek to address the distorting effect that the submitted £0/MWh Offer prices in the Winter Contingency Contracts will have on the Indicative Cash-Out which are reported on the BMRS around 20mins past the closure of each Settlement Period, merely stating that "This information, will allow industry to know that the near real-time system prices calculated on BMRS may not be accurate..."</p> <p>The Indicative Cash-out is a prompt price signal to market participants. To provide an inaccurate price signal may stifle market participants' response i.e. not trading, not re-despatching, or at worse acting differently to how they would have done had an accurate price signal been calculated and published.</p> <p>If the suggested side-letters to the Winter Contingency contracts are no longer an option, then, provided that the BMRS does not send any data in to the Settlements system, consideration could be given to additional steps to 'correct' the BMRS:</p> <p>1) the Offer Prices submitted for the Winter Contingency contract units and passed to the BMRS by NG ESO could be updated in BMRS systems from £0/MWh to £99999/MWh by creating a Database Trigger (i.e. After Insert ...) on the relevant BMRS database table</p> <p>This change of the Offer prices would mean that the BMRS Indicative Cash-Out calculation, when run, would then be correct since the Winter Contingency contract accepted volumes would now sit in the correct place in the accepted Offer volumes stack.</p> <p>2) Similarly when the BMRS' Derived Cashflows are calculated using the updated £99999/MWh Offer price and presumably written back to the BMRS database, another Database Trigger could reset any Winter Contingency Contract cashflows to £0</p>
Uniper	No	N/A

Respondent	Response	Rationale