
Issue 92 Virtual Meeting Etiquette

- Welcome to the Issue 92 Workgroup Meeting 3
- No video please to conserve bandwidth
- Please stay on mute unless you need to talk – use the **Raise your hand** feature in the menu bar in Microsoft Teams if you want to speak
- Lots of us are working remotely – be mindful of background noise and connection speeds

ELEXION

Issue 92 - Reserve Scarcity Price Review

Issue Group Meeting 3

2 June 2021

Meeting Agenda & Objectives

- Review Industry RFI Responses
- Proposer to make recommendations

Agenda Item	Lead
1. Welcome to the meeting	Claire Kerr (Chair)
2. Review consultation responses	Andrew Grace (Lead Analyst)
3. Workgroup discussion	Workgroup
4. Proposer feedback	Katharina Birkner/Richard Price (Proposer – National Grid)
5. Next Steps	Andrew Grace
6. AOB & Meeting Close	Claire Kerr



REVIEW CONSULTATION RESPONSES

Consultation Feedback

Question	Yes	No	Neutral/No Comment	Other
1a: What are the benefits of Reserve Scarcity Pricing as a whole, including cashout, and how do you make use of the information?	-	-	-	-
1b: What are the drawbacks of Reserve Scarcity Pricing as a whole, including cashout that limit your use of this information?	-	-	-	-
2: Does the current Reserve Scarcity Price mechanism influence your trading strategy or your participation in the electricity market and how?	3	0	1	1
3a: What are the benefits of the De-Rated Margin and Loss of Load Probability calculations and how do you use the information?	-	-	-	-
3b: What are the drawbacks of the De-Rated Margin and Loss of Load Probability calculations that limit your use of this information?	-	-	-	-
4: 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?	2	0	1	2
5: 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?	2	0	1	2
6: How can the current processes be improved?	-	-	-	-
7: Is there other related information that you would like to see published as well or instead of the existing Reserve Scarcity Price-related information?	2	1	1	1
8: 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?	-	-	-	-
9: Do you have any further comments?	2	3	-	-



WORKGROUP DISCUSSION

1. Benefits and Drawbacks of Reserve Scarcity Pricing

Benefits	Drawbacks
Scarcity pricing is widely recognised as one of the most economically efficient market mechanisms delivering benefits to consumers.	We do not believe there are any drawbacks of Reserve Scarcity Pricing.
We understand the original rationale for Reserve Scarcity Pricing which was to overcome previous limitations in reflecting the cost of reserve products in periods in which they were used, more specifically when allocating the availability payments to those periods to ensure that costs were not understated	The concerns around limitations posed by the previous relatively long term procurement of STOR and the effect on utilisation prices have been reduced significantly by new procurement rules. Scarcity should continue to be reflected in the market price, but this should no longer just be constrained to specific STOR windows.
When STOR utilisation prices were set before day ahead, the RSP more accurately reflected the real time cost of balancing leading to more reflective cash out prices	There are several drawbacks with the current RSP including: <ul style="list-style-type: none">• There is no mechanism for the market to understand when STOR will be called to trigger RSP.• It is only triggered during a STOR availability window.• It can drive sub optimal behaviour.

2. Does the current Reserve Scarcity Price mechanism influence your trading strategy?

Question	Yes	No	Neutral/No Comment	Other
2: Does the current Reserve Scarcity Price mechanism influence your trading strategy or your participation in the electricity market and how?	3	0	1	1

- We do not wish to disclose how we specifically use particular parameters within our trading strategy, but anything which influences the level of cashout prices will influence parties' operations in the electricity market. Expected imbalance prices will affect how parties operate in the timeframes running before gate closure, which will in turn affect investment decisions. It is important that the signals provided through cashout, including those which reflect system margin levels, are as accurate as possible to provide the correct incentives.
- The Reserve Price Scarcity mechanism reduces the dampening of cashout prices which feed into the wholesale market. Therefore, wholesale market prices tend to more accurately represent fundamental market behaviours which are used to model and forecast forward market prices and make commercial strategic decisions, including informing Capacity Market bid prices.
- Within Day we monitor the Loss of Load Probability (LoLP) and de-rated margin (DRM) to gauge whether we believe STOR actions will be triggered in the STOR window. We make sure we are not short if we expect the RSP to be used. As noted in our answer to question 1b we have seen some assets move to non-BM to capitalise on possibly higher cashout prices in preference to participating in the BM.

3. Benefits and Drawbacks of the De-Rated Margin and Loss of Load Probability calculations

Benefits	Drawbacks
The Reserve Price Scarcity mechanism reduces the dampening of cashout prices which feed into the wholesale market. Therefore, wholesale market prices tend to more accurately represent fundamental market behaviours which are used to model and forecast forward market prices and make commercial strategic decisions, including informing Capacity Market bid prices.	It is important to the market that these parameters are calculated as accurately as possible to ensure that the level of margin on the system is understood. Even without a RSP, some form of measure of system margin will be required.
We monitor the DRM and LoLP calculations within day when they are more accurate. Like the other energy notices, the EMN and CMN, they provide signals to the market to increase generation or reduce demand when margins are tight. We also produce an internal DRM which we believe is more accurate. We recommend a review of the margin notices to potentially rationalise the DRM with the EMN. We note that Elexon report that an EMN was called in all cases where the cashout prices out-turned greater than £1000.	We do not believe there are any drawbacks of the De-Rated Margin and Loss of Load Probability calculations.
	Most importantly they need to be easy to calculate and understand.

4. Do the current De-Rated Margin and Loss of Load Probability forecasts influence your trading strategy?

Question	Yes	No	Neutral/No Comment	Other
4: 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?	2	0	1	2

- We do not wish to disclose how we specifically use particular parameters within our trading strategy, but it is to be expected that parties will consider information on the potential level tightness of the market, particularly given the potential impact it presently has on cashout prices.
- When the LoLP forecast is high, we would aim to maximise our stations’ potential availability so that we have the maximum amount of electricity technically available to sell if commercially viable.

5. Do you think a Reserve Scarcity Price mechanism will still be beneficial?

Question	Yes	No	Neutral/No Comment	Other
5: 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?	2	0	1	2

- It is possible that a new calculation, based more fully on costs incurred, may be more suitable to reflect changing market mechanisms. However, more work needs to be completed to understand whether this is possible, or whether a different approach to calculating the existing RSP is more appropriate.
- The fundamental reason for revising the utilisation price of STOR balancing actions upwards to RSP to more accurately reflect market fundamentals as described in our response to Question 1a still remains.
- We do not think that the existing RSP mechanism will be beneficial now that STOR has moved to day-ahead availability pricing and within day utilisation pricing. STOR pricing will therefore be reflective of real time market prices. We support the introduction of a new RSP mechanism.

6. How can the current processes be improved?

- We believe earlier publication of RSP forecasts would be useful for market participants. More notice of potential system tightness may enable us to increase generation availability further. We believe it would be appropriate to review the inclusion of other reserve products that are used for energy balancing at times of scarcity.
- It should no longer be pegged to STOR availability windows. The replacement RSP should reward visible assets in the BM rather than those in non-BM.

7. Is there other related information that you would like to see published?

Question	Yes	No	Neutral/No Comment	Other
7: Is there other related information that you would like to see published as well or instead of the existing Reserve Scarcity Price-related information?	2	1	1	1

- We believe more transparency of the data used to make the RSP forecast would be useful for market participants to make their own assessment of the Loss of Load Probability.
- For any new RSP it must be clear when it will be triggered.

8. Is there an alternative or additional process or mechanism that you would prefer to see adopted?

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?

- There may be more appropriate mechanisms, but there needs to be more assessment of options before we are able to comment.
- If the RSP Mechanism is removed from the Balancing and Settlement Code, it may need to be replaced with an alternative appropriate mechanism which represents the full cost of STOR balancing actions, including taking appropriate STOR availability payments into account.
- We believe a replacement RSP mechanism is needed which will require further consideration. Two possible replacements could be:
 1. When the DRM is tight, then all activity taken in the BM to respond to this should be priced at the scarcity price so that BM participants are appropriately rewarded and there is no incentive to take a non-BM route.
 2. Instead of using a £6k RSP it may be more market reflective to use the highest BM Offer in a Settlement Period when calculating the cashout price.



PROPOSER FEEDBACK



MEETING CLOSE

ELEXON