

P305: REQUEST FOR TIMETABLE EXTENSION

MEETING NAME BSC Panel

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Purpose of paper For Decision

Classification Public

Summary The P305 Workgroup is requesting a two-month extension to the Assessment Procedure timetable for P305. This paper provides the P305 Workgroup's rationale for this request and invites the Panel to agree to grant this extension.

1. Background to P305

- 1.1 [P305 'Electricity Balancing Significant Code Review Developments'](#) was raised by National Grid on 30 May 2014 following a [direction from the Authority](#), and proposes to implement the conclusions to Ofgem's Electricity Balancing Significant Code Review (EBSCR) detailed in its [final policy decision](#).
- 1.2 The solution that P305 seeks to implement consists of the following areas:
 - a) A reduction in the Price Average Reference (PAR) and Replacement PAR (RPAR) values to better reflect the marginal cost of balancing energy for a given Settlement Period.
 - b) A single imbalance price using the existing Main Price calculation.
 - c) Introduction of a Reserve Scarcity Price (RSP) function for Short Term Operating Reserve (STOR) actions to better reflect the prevailing scarcity in the market at the time of their use.
 - d) Introduction of Demand Control actions into the imbalance price, priced at the Value of Lost Load (VoLL), and an imbalance volume correction process to amend participants' positions to account for such actions.
- 1.3 On 12 June 2014, the Panel agreed to submit P305 to a six month Assessment Procedure, with the Workgroup's Assessment Report to be presented on 11 December 2014 ([Panel 225/08](#)). The Draft Modification Report would then be considered by the Panel on 12 February 2015, where it would make its final recommendations to the Authority.

2. Reason for extension

- 2.1 The P305 Workgroup believes further work is required to develop the Loss of Load Probability (LoLP) calculation, which forms a key part of the proposed RSP function.
- 2.2 National Grid has developed a dynamic LoLP function in line with the requirements in Annex 2 (28) of the Authority's direction, which it has presented to the Workgroup with supporting analysis. A summary of the key results considered by the P305 Workgroup can be found in Appendix 1.
- 2.3 After reviewing the analysis the Workgroup has concerns that the LoLP function is consistently producing an upward spike in the Final LoLP value calculated at Gate Closure when compared to the last Indicative LoLP value calculated one hour before Gate Closure. Since this last Indicative LoLP value is the final signal participants would receive prior to Gate Closure there is concern that, with no indication in the Indicative LoLP values that such a spike is about occur, there is no signal that Trading Parties can react to before Gate

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Closure. Furthermore, this could result in an unpredictable and potentially erroneously high imbalance price should the Transmission Company call upon a STOR action in the relevant Settlement Period.

- 2.4 The Workgroup believes this is a significant flaw in the proposed function and has requested National Grid investigates what is causing this spike and amend its model as necessary. Members do not believe they can agree to the proposed function as it currently stands. In addition, some Workgroup members have proposed alternative functions, which they would like to develop and assess in parallel with National Grid's work. Consequently, the Workgroup believes that the P305 solution is incomplete and cannot proceed to consult the industry.
- 2.5 There is now insufficient time left in the P305 Assessment Procedure timetable to allow the Workgroup to amend and reassess the LoLP function, issue a consultation and consider the responses before making its recommendations to the Panel in December 2014. The Workgroup notes that Ofgem is seeking implementation ahead of Winter 2015/16. However, it feels that the RSP function is a critical part of the P305 solution that cannot be unduly rushed, and that sufficient time needs to be allowed to properly develop and analyse the LoLP function given its complexity and the impact it would have on imbalance prices.

3. Proposed timetable

- 3.1 The P305 Workgroup considers that it will require a two month extension in order to fully consider the areas outlined above. The Workgroup will need one or more further meetings to discuss and resolve these areas before issuing its industry consultation. It will then need to meet to consider the responses and agree its final recommendation to the Panel for February 2015.
- 3.2 Although this would be a two month extension to the Assessment Procedure, if the Panel agrees to shorten the Report Phase Consultation from 15 Working Days (WD) to 12WD it can make its final recommendation to the Authority in March 2015. This would be one month later than currently planned.
- 3.3 Ofgem has also raised concerns that a two month timetable would ultimately delay its final decision on P305 making it difficult to implement for winter 2015. We are also acutely aware of the time it would take to implement P305. As such, despite requesting a two month extension, we will use our best endeavours to complete P305 to quality for January 2015 rather than February 2015. This would allow the Panel to make its final recommendation to the Authority in February 2015, as currently scheduled. However, this is very much dependent on the timely development and assessment of the LoLP function, and ensuring we develop a solution that is robust. Such a significant change cannot nor should not be rushed through.

4. Recommendations

4.1 We invite you to:

- **AGREE** to extend the P305 Assessment Procedure timetable by two months, with the Assessment Report presented no later than 12 February 2015; and
- **NOTE** the P305 Workgroup will use best endeavours to present its Assessment Report on 15 January 2015.

Appendices

Appendix 1: LoLP analysis for week beginning 13 October 2014

Attachments

None

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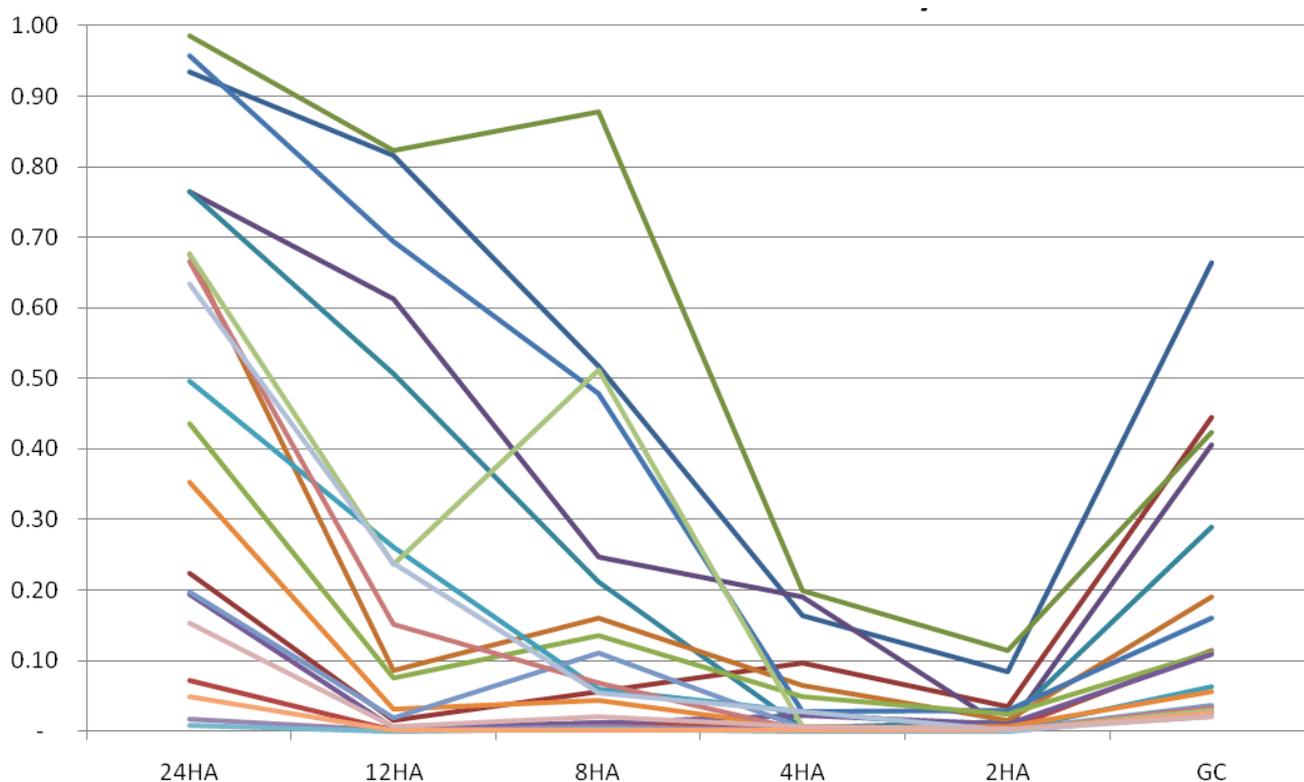
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Appendix 1: LoLP analysis for week beginning 13 October 2014

A key part of the P305 Workgroup's assessment of National Grid's dynamic LoLP function has been to apply it to the week beginning 13 October 2014, where the margin between demand and available generation was considered to be particularly tight.

The graph below shows the Indicative and Final LoLP values for the Settlement Periods during this week where the resultant RSP at Gate Closure would have been greater than £50/MWh. The RSP is calculated as $LoLP * VoLL$ with a VoLL value of £3,000/MWh.

Indicative LoLP values are shown at 24, 12, eight, four and two hours ahead of the Settlement Period ('XXHA'), and are used for participants' information only in the run-up to Gate Closure. The Final LoLP value is calculated at Gate Closure ('GC'), and is the value that would be used to calculate that Settlement Period's RSP.



In this scenario, the highest RSP (14 October 2014 SP39) would have been approximately £2,000/MWh, based on a Final LoLP of around 0.67 or 67%. However, the last Indicative LoLP value produced one hour earlier was approximately 0.09 or 9%, giving an indicative RSP of approximately £270/MWh. This would not have provided participants with a strong signal that a high RSP value would be applied should a STOR action be called upon.

For reference, both the System Buy Price (SBP) and the System Sell Price (SSP) were £184.31/MWh for this Settlement Period (as at the Interim Information Settlement Run (II)).