

Report Phase Consultation Responses



P323 'Enabling inclusion and treatment of SBR in the Imbalance Price'

This Report Phase Consultation was issued on 11 September 2015, with responses invited by 28 September 2015.

Phase

Initial Written Assessment

Definition Procedure

Assessment Procedure

Report Phase

Implementation

Consultation Respondents

Respondent	No. of Parties/Non-Parties Represented	Role(s) Represented
ENGIE UK-Turkey	13/0	Generator, Supplier
Good Energy	1/2	Supplier, ECVNA, MVRNA
Everis Consultancy Ltd on behalf of ScottishPower Group	9/16	Generator, Supplier, Non Physical Trader, ECVNA, MVRNA, Supplier Agent
National Grid	1/0	Transmission Company
Centrica	15/0	Generator, Supplier, Non Physical Trader
First Utility Limited	1/0	Supplier

P323
Report Phase Consultation
Responses

29 September 2015

Version 1.0

Page 1 of 12

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Question 1: Do you agree with the Panel's initial majority recommendation that P323 should be approved?

Summary

Yes	No	Neutral/No Comment	Other
4	2	-	-

Responses

Respondent	Response	Rationale
Engie	No	<p>ENGIE believes it is more important to have prompt prices even if this means that cashout prices exclude the cost of SBR and DSBR. Publishing a cashout price 5 working days after the event does not provide price signals to assist with making trading decisions.</p> <p>In ENGIE's view, P323 does not better facilitate the following BSC objectives:</p> <p>Objective b - cashout prices are supposed to provide a signal to trade to imbalance exposure. The 5 working day delay will create uncertainty as to the cashout price and hinder making trading decisions. This is detrimental to the efficient and economic operation of the Transmission System</p> <p>Objective c – delays to publishing the correct cashout prices will be detrimental to competition for smaller parties who may not have the resources to estimate what cashout prices should be. This places them at a disadvantage compared to larger companies when they are valuing trades around times of system stress.</p> <p>Objective d – manual workarounds are not an efficient solution.</p>
Good Energy	No	<p>P323 does not better facilitate Objective (c) for the following reasons:</p> <ul style="list-style-type: none"> • The proposed manual process has the effect of imbalance prices changing massively well after the event around periods of system stress which: <ul style="list-style-type: none"> ○ has the potential to distort the market due to lack of real-time transparency of information; ○ disadvantages smaller parties who lack the resource to estimate what

Respondent	Response	Rationale
		<p>the cash-out price should be.</p> <ul style="list-style-type: none"> By enabling SBR to be priced at VoLL it disadvantages smaller parties without the ability to monitor BMRS and trade 24/7, which exposes them to significant risk of bearing severe imbalance charges. This risk is most acute for small renewable suppliers and independent (non-portfolio) generators where, if the wind does not blow or a generator trips at times of system stress, the resulting imbalance could potentially put them out of business. Conversely, the changes would allow larger market participants to exert market power and take advantage of being able to determine when SBR has been utilised in advance of it being formally published. The greater likelihood of extreme cash-out prices increases credit cover requirements which disadvantages smaller parties who tend to find it more difficult to provide the funding, and have a higher cost of capital, and so results in cash being utilised that would otherwise be used by the rest of the business. <p>P323 does not better facilitate Objective (d) because the proposed manual process is less efficient to administer and inherently more prone to error than an automated solution. Any error could have major consequences for individual Parties. There is increased likelihood of appeals being raised on the grounds of erroneous cash-out prices.</p> <p>We consider P323 to be neutral to the other Applicable BSC Objectives.</p>
<p>Everis Consultancy Ltd on behalf of ScottishPower Group</p>	<p>Yes</p>	<p>We agree with the Panel's initial majority view that P323 should be approved.</p> <p>Against Objective A, it will enable proposed changes to the C16 methodology statements (required under the Transmission licence) to be brought into effect.</p> <p>Against Objective C, we agree that balancing actions taken in lieu of involuntary demand disconnection should be appropriately reflected in cash out, and that this is an adequate solution to enable this. Reflecting the value of BM actions into imbalance prices should better facilitate competition.</p>

Respondent	Response	Rationale
		<p>Against Objective D, we agree with the workgroup that the proposal represents a pragmatic and practical solution in the short term given the time and development constraints applying but that a cost benefit analysis should be carried out on an enduring system solution should the SBR and DSBR services be extended until 2017/18.</p> <p>We believe that the Proposal is neutral against Applicable Objectives (A), (B), (E) and (F).</p>
National Grid	Yes	<p>As Proposer, we agree that the P323 should be approved by the Authority as we believe that, should the C16 changes gain approval, P323 would better facilitate BSC objectives (a) and (d).</p> <p>In reference to the objective (a) "The efficient discharge by the Transmission Company of the obligations imposed upon it by the Transmission Licence", P323 will enable proposed changes to C16 methodology statements to have practical effect. The changes proposed under the C16 process as per the Transmission Licence cannot be efficiently discharged in relation to SBR without P323.</p> <p>We also believe that P323 would help to achieve the objective (d) "Promoting efficiency in the implementation and administration of the balancing and settlement arrangements" as a pragmatic and proportionate solution to allow National Grid to efficiently discharge its obligations in what is expected to be an infrequent occurrence.</p> <p>We are neutral about the other objectives – noting that the C16 changes themselves (i.e. rather than P323) may better facilitate objectives (b) and (c) than the baseline.</p>
Centrica	Yes	-
First Utility Limited	Yes	<p>We agree that this modification meets objective a) as it will enable the TC to implement C16 (if approved).</p> <p>We disagree that overall it improves the BSC above the current baseline because it introduces distortions to the establishment of effective competition in the supply of electricity objective C. This distortion is a result of creating additional requirements on smaller players to track further market parameters in order to effectively manage their risk. The burden of tracking these parameters is disproportionate for smaller players who do</p>

Respondent	Response	Rationale
		<p>cannot afford, and not have 24*7 trading functions.</p> <p>We also believe that it will be detrimental to objective b) in promoting the efficient, economic and co-ordinated operation of the NETS as it will over recover costs.</p> <p>This issue arises from imperfections in the CADL tagging methodology, these are exacerbated by the price rising to near VOLL price and are potentially a significant distortion. For example, if the market is near balanced for 25mins, the SO calls SBR BOA that reaches SEL in the last 5 minutes, the BOA will be volume weighted, but as the settlement period was near balanced on a market basis for 25mins, the resultant impact on all individual parties out of balance will be near VOLL prices for the full settlement period, thus penalising smaller less predictable portfolios that have very little impact on the overall market balance.</p> <p>The intent of P323 is to prevent certain parties being over-rewarded at the expense of all players, whereas this has the reverse impact and penalises smaller players to the benefit of all players as they have the greatest propensity to be out of balance and have less ability to trade their positions due to the scale of their operations.</p> <p>It can be reasonably expected that Plant will be warmed more frequently than it will be despatched. If players take action on issue of a plant warming notice, and not all warming notices result in despatched SBR BOA's this will lead to inefficient signals leading to additional market costs. Whilst this will impact all players, its impact will be greatest on smaller players. This distortion will be a function of the prudency that the System Operator uses in calling plant to be warmed. In all likelihood they will always play safe and call for it to be warmed as a precaution, thus this could be a significant distortion. The alternative is players do not take notice of the warning instruction, in which case their will be no market response as the actual call of an SBR BOA will not be known until the following day. We believe this is contrary to objectives b & c.</p> <p>The availability of timely market price information as a result of a SBR BOA is essential if parties are to respond appropriately to a market signal. We believe that information availability the following</p>

Respondent	Response	Rationale
		<p>day fails to give a timely market signal and will result in an inefficient market signal and hence an inefficient market against Objective b.</p> <p>In terms of objective d) we believe this mod will not promote efficiency in the implementation of the BSC as it introduces a manual process.</p>

Question 2: Do you agree with the Panel that the redlined changes to the BSC and CSD deliver the intention of P323?

Summary

Yes	No	Neutral/No Comment	Other
3	1	1	1

Responses

Respondent	Response	Rationale
Engie	Yes	-
Good Energy	No comment	We do not have a view on this.
Everis Consultancy Ltd on behalf of ScottishPower Group	Yes	-
National Grid	Yes	We believe that the redlined changes to the BSC and CSD support the implementation of P323 as they will give practical effect to the modification.
Centrica	Possibly	We have one outstanding query (raised late) on whether the legal text delivers the correct process for when SBR contracted incremental capacity is utilised. If the changes are confirmed to deliver the correct process then we agree with the redlined changes.
First Utility Limited	No	<p>In the main yes, however, we remain concerned that throughout the documents if an SBR action is called for a transmission constrain as a matter of last resort by the System Operator it will be classified as an SBR action and not tagged out as there seems very little discretion for the System Operator to flag an SBR action for constraint purposes. We would like to see a very clear statement that in the very unlikely event an SBR BOA is taken for Constraint purposes it will be tagged as such and will not impact imbalance prices. For example, BSC Clause 3;</p> <p>3.16 Determination of SBR Action and SBR Action Price</p> <p>3.16.1 Each accepted Offer for which the Acceptance was classified by the Transmission Company as 'SBR-Flagged' or identified through an SBR Notice shall be an SBR Action.</p> <p>3.16.2 For each SBR Action the SBR Action Price will</p>

Respondent	Response	Rationale
		<p>be equal to VoLL.</p> <p>Here the "or" in 3.16.1 would mean if an SBR notice has been issued then it will be an SBR action.</p>

Question 3: Do you agree with the Panel's recommended Implementation Date?

Summary

Yes	No	Neutral/No Comment	Other
4	2	-	-

Responses

Respondent	Response	Rationale
Engie	No	Whilst ENGIE supports the inclusion of SBR and DSBR actions into cashout at VoLL, this change should not apply until an automated solution can be introduced which allows prompt pricing.
Good Energy	No	<p>We consider it to be totally inappropriate to use the proposed manual solution to implement the changes required to cash-out by P323 for the following reasons:</p> <ul style="list-style-type: none"> • It has the effect of imbalance prices changing massively well after the event around periods of system stress; • The inherent risk of error from a mistake in the calculation and/or the adjustment being applied initially to the wrong settlement period. • The above issues could have major consequences for individual (and particularly smaller) Parties and are likely to persist until 2017/18 and possibly beyond. • The more efficient automated solution identified as a potential enduring solution, which avoids the above issues, could be utilised if implementation were delayed slightly - to the extent necessary to avoid putting at risk other changes already approved for implementation by 5 November 2015. Such delay should not undermine pricing signals from cash-out as the market would know of the intention to price SBR actions at VoLL at the earliest practicable opportunity.
Everis Consultancy Ltd on behalf of ScottishPower Group	Yes	-

Respondent	Response	Rationale
National Grid	Yes	We believe that P323 should be implemented on 5th November 2015 as part of the November 2015 Release along with P305 Modification that gives effect to the EBSCR reforms to cash-out arrangements detailed in the EBSCR Final Policy Decision. This is because it is necessary that some elements of P305 (e.g. the Value of Lost Load (VoLL) price) are in place before P323 is implemented. In addition, this allows the market to receive the appropriate signals.
Centrica	Yes	-
First Utility Limited	Yes	If implemented it makes sense to align with P305 implementation date.

Question 4: Do you have any further comments on P323?

Summary

Yes	No
3	3

Responses

Respondent	Response	Rationale
Engie	Yes	<p>The P323 Report notes that:</p> <p><i>"A Workgroup member noted that the TC was due to send out a consultation on continuing the use of additional Balancing Services for winters 2016/17 and 2017/18. The Proposer confirmed that the consultation was issued on 17 July 2015 and which closes on Friday 14 August 2015. The Workgroup believed that this strengthened the case for a more enduring and robust solution. The Workgroup noted that an assessment of an enduring, automated solution has not yet been carried out, so therefore could not yet make a recommendation as to whether a CP should be raised to automate the process later".</i></p> <p>The report then goes on to say :</p> <p><i>"ELEXON advised that an indicative cost to make system changes to the BMRS, Energy Contract Volume Aggregation Agent (ECVAA) and SAA systems of c.£180k taking approximately 30 weeks to develop, test and implement, based on an implementation in November 2016"</i></p> <p>Now that National Grid has both consulted on extending the use of these services, and will hold a tender for winter 16/17 in December 2015, work needs to begin on an automated solution so that it can be in place for November 2016. Whilst ENGIE accepts that DSBR and SBR will be used infrequently and that some might argue that the system cost of £180k does not justify an automated solution, there use must be more often than demand disconnection given that they precede demand disconnection. Since demand disconnection forms part of the P305 solution, it is appropriate to develop an automated solution to allow prompt pricing when SBR and DSBR is utilised.</p>
Good Energy	Yes	We note that the Workgroup identified an alternative solution under which the Transmission

Respondent	Response	Rationale
		Company (TC) would simply reprice BOAs to £3000/MWh and then reconcile BM Cashflow 'windfall payments' after the event. This option would be unlikely to require any changes to the BSC or Central Systems, as it would rely on existing BSC processes for submitting revised/corrected Bid Offer Data. We note that the TC raised various reasons for not pursuing this option which were not fully explained in the consultation document. We urge that further consideration should be given to this alternative solution.
Everis Consultancy Ltd on behalf of ScottishPower Group	No	-
National Grid	No	No additional comments.
Centrica	No	-
First Utility Limited	Yes	<p>We agree that the potential DSBR windfall gain issue needs urgent attention and presents a material gaming opportunity for certain players. We believe that this should be resolved by the end of the year.</p> <p>We do not believe it is appropriate that Imbalance prices can rise above the value of VOLL at the time of an SBR action as this will result in consumers paying more than the value attributed to lost load and hence overcharge them. We believe that the imbalance price should be capped at VOLL.</p>