P410 WORKGROUP 1 SUMMARY

Summary of discussions

A Workgroup member noted that the Imbalance Settlement Harmonisation regulation (ISHP) required imbalance prices to be derived only from Replacement Reserve (RR) and Frequency Restoration Reserve (FRR) products. They noted that at the time of the workgroup, no specific products had been approved and so only the standard products (TERRE, and MARI once the implementation framework is agreed) could be used. National Grid ESO (NGESO) commented that they had written to Ofgem regarding this and has a working assumption that Ofgem would approve the specific products detailed in the mapping. They also noted that an updated mapping was being drafted, but that it was not yet publicly available.

Elexon confirmed that this was included in the slides primarily for information, but that NGESO and Ofgem would need to ensure the specific RR and FRR products were signed off in GB prior to the ISHP entry in to force.

Workgroup members also questioned the impact the brexit may have on the requirement to comply with the ISHP. Elexon advised that this would ultimately be driven by the outcome of the Free Trade Agreement (FTA), but the expectation was that Statutory Instruments would be laid to consolidate EU law into UK law in the event of no deal being reached. If the UK reaches an enduring agreement to participate in the EU energy market, then it would be required to comply with the regulations.

The Workgroup discussed principles that should be applied when defining the calculation of the Value of Avoided Activation of balancing energy (VOAA). A member questioned whether NGESO would continue to use TERRE and MARI products to balance the system post brexit. NGESO was not able to provide a definitive answer and agreed to liaise with control room staff to determine how they would be used in conjunction with other products. However, it outlined its understanding that they would be used. Elexon noted that in the event of a no deal, it was unlikely that the UK would have access to EU trading platforms, though could not confirm whether this would include TERRE and MARI as they could relate to security of supply and therefore be available under different regulations to the cross border trading platforms.

A Workgroup member believed that if EBGL provisions were transferred to UK law, the VOAA would need to be based on TERRE/MARI process regardless of whether NGESO used these products. Elexon noted the uncertainty of the FTA. A Workgroup member noted there was a clear requirement to base the VOAA on RR and FRR products. TERRE and MARI make up the standard products, but specific products can also be used. They commented that this would make alternative processes available, but believed that if the standard products were available, it would make sense to use them.

A member noted that NGESO has suspended procuring new STOR contracts and expressed concern over the uncertainty on how future products were being developed. A member commented they were uncertain what value a VOAA based on TERRE and MARI pieces would provide if NGESO was not using these products to balance the system. NGESO took an action to provide additional clarity on the future pf products that will be available.

A member noted that specific products were permissible, but believed that intent of the EBGL was for a move towards the EBGL standard products of TERRE and MARI, with specific products only being used in well defined circumstances. This would make the BM less important as liquidity would move towards the standard products.

A member expressed concern that using prices from TERRE/MARI may present a risk that bids and offers from other European markets could be used to set the GB imbalance price. They believed that the nature of the GB market distorts competition between GB generators and European equivalents, and that only energy from GB sources should feed into the GB price. Elexon and NGESO agreed to provide further thought into assess where prices in the calculation might come from. The member did not believe that GB generators would be able to bid into the TERRE/MARI products on a level playing field with other European generators.

A Workgroup member believed that uncertainty on how market liquidity would be balanced between the BM and TERRE/MARI presented a challenge in defining a VOAA calculation. The Workgroup therefore determined that any design should be suitable for either scenario. A member noted that BM participation was mandatory, while TERRE/MARI participation was voluntary, and therefore questioned whether a significant liquidity would move from the BM. They also noted the differing dynamics with the BM being paid as bid, while TERRE/MARI were paid as

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cleared. Elexon noted that a VOAA did not need to be based on all available RR/FRR products, and so a calculation using just BM would be compliant.

The Workgroup did not want the VOAA methodology to be preclusive of future products. It was suggested that a methodology statement sitting outside of the BSC would allow flexibility to change the VOAA calculation to reflect market liquidity without requiring a BSC Modification. This could set out the principles of what a product should satisfy in order to contribute to the VOAA. This approach would allow new products to easily be assessed as they became available.

The Workgroup noted that there may need to be data validation performed before the VOAA could be calculated. Not all available bids and offers would be operationally available as parameters such as the maximum and stable export limits would need to be considered. A member notes the Continuous Acceptance Data Limit (CADL) and questioned whether there should be a time limit on actions used in the VOAA calculation. Elexon commented that the VOAA would be based on available actions rather that instructed actions and so this was not a concern. Elexon noted that the VOAA was required to be published within 15 minutes of a Settlement Period, and so any criteria should be as automated as possible. NGESO raised a similar question on control room constraints and noted that there would be some interpretation on what constituted an 'available action'. A member expressed concern that Import and export parameters could unwittingly exclude battery storage, noting that they would be able to switch between importing and exporting.

A Workgroup member commented that the Market Index Price (MIP) was used as a proxy for the short term cost of energy trading. They did not believe that a VOAA based on the average of available bids and offers would satisfactorily perform this function and would distort the market. They believed that any future VOAA should have solid justification for why it was used and formulating an average from the prices available was not a good enough reason. A member suggested keeping the MIP and using it to determine which available Bids and Offers were fed into the VOAA calculation, so that a complainant, but similar value would be reached. Elexon noted this was not in the spirit of the EBGL, but agreed to investigate whether this would be compliant. Elexon also agreed to conduct analysis into how historic MIP values would have compared to an average of available Bids and Offers.

A Workgroup member wanted to rule out TERRE and MARI prices from the calculation of the MIP initially, believing that it would be undesirable to include them as they were unknowns and subject to ongoing negotiations with the EU. A member suggested just using BM process initially and moving to include other products to reflect any subsequent change in market liquidity.

A member questioned whether TERRE would produce a clearing price in the event that there had been no TSO need. Elexon responded that they believed this was included in the algorithm, but had not been modelled and so outturn price is unknown.

Elexon thanked the Workgroup for their input and agreed to work with the Proposer to further develop the principles for calculating VOAA.

The Workgroup noted that FRR products would need to be submitted to and approved by Ofgem before 15 January 2022 to continue using bids and offers in the imbalance price. This would have impacts beyond just the calculation of VOAA if it was not done. The Workgroup expressed a desire for clarity on this and NGESO agreed to confirm timescales of when it expects this to be. It noted that it was in discussion with Ofgem, but had not formally submitted anything for FRR products.

A member expressed caution that any process must allow data from the products to be used in a meaningful way and should capture all products used by NGESO in balancing the system. A member believed that products should be included regardless of where they were procured, and Elexon questioned whether this should also capture products procured by a Distribution Network Operator. The Workgroup view was that this would depend on how the market ended up being split in this way.

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The workgroup considered the need for a harmonised way of considering prices that contribute towards energy balancing also contributing towards the calculation of a VOAA. This route should also apply for new products introduced by NGESO in the future. The solution should be adaptable to potential new products, or changing usage of existing products.

Elexon commented that the Buy Price Price Adjustment (BPA) could be considered an incentivising component to satisfy national boundary conditions and so would not be invalidated by the ISHP.

A Workgroup member commented that the BPA was designed to reflect options fees in the Imbalance Price. They noted that options fees were being phased out in favour of real-time pricing and so it made sense that the BPA was also phased out. NGESO agreed to provide guidance on the expected future of payments reflected in the BPA such as options fees and BM warm up. The Workgroup also noted the EBGL principle that forward contracts should not be used to set imbalance prices.

Given the Workgroup discussions, Elexon suggested that there may be value in retaining the MIP in the BSC – particularly if it used to influence which bids and offers are used to calculate VOAA. This can therefore be reconsidered when a solution for calculating VOAA has been agreed.

NGESO confirmed that it was seeking derogation to allow the BM to continue being paid as bid rather than paid as cleared. A Workgroup member expressed caution that is some instances the BM (paid as bid) was setting the market price, and other times TERRE (paid as cleared) was setting the market price then this may look strange to an outside observer. However as long as both prices were reflective of the market, the Workgroup did not see that this should be an issue.

Actions

No	Action on	Action
1/01	Elexon	Circulate link to the approved Imbalance Settlement Harmonisation Regulation.
1/02	NGESO	Assess how the mix of products (including TERRE/MARI) will be used to balance the system post brexit.
1/03	NGESO	Provide additional clarity on the future landscape of balancing products that will be used.
1/04	Elexon/NGESO	Provide thoughts on how location of available energy can be used to prevent the GB price being set by other markets.
1/05	Elexon	Investigate whether using the MIP to influence the combination of Bids and Offers in the VOAA calculation would be compliant with the ISHP.
1/06	Elexon/NGESO	Use Workgroup feedback to further develop the principles for how a VOAA should be calculated.
1/07	NGESO	Confirm timescales of when the submissions for specific products will be made.
1/08	NGESO	Provide guidance on the expected future of options fees, BM warm up and other costs reflected in the BPA.

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