
P410 'Changing imbalance price calculations to comply with the Imbalance Settlement Harmonisation regulations' Workgroup 3 summary

Summary of discussions

When discussing whether a solution could select a price based on the actual Net Imbalance Volume (NIV), a member commented that a predictive NIV would be useful. They believed that this would indicate the direction the market anticipated and so would help define a proxy for the market price in scenarios where there had been no activation of balancing energy. The member commented that the Market Index Price (MIP) represented a proxy for where the market expected the imbalance price to be, and thought the VOAA should follow similar principles, and noted that if it was based solely on ex-post data, then it wouldn't be able to send the same signals to the market as the current MIP.

A Workgroup member questioned the difference between available and feasible actions. Elexon advised that it has taken the view that they have the same meaning, in order to reach a solution that is both practical and compliant. The Workgroup member commented that ramping times may affect how much of a Bid was actually available to the TSO, and that this should be accounted for in calculations.

A Workgroup member questioned the definitions of 'no energy demand' and 'no energy activations' as they appear in the definition of Value of Avoided Activation as scenarios where the price is deployed. They believed these were key to defining a compliant solution. Elexon advised that 'no energy balancing demand' related to a NIV=0 scenario, where the bid and offer stacks were the same volume, and that 'no energy balancing activation' related to the scenario where all actions in the pricing stack were tagged as system rather than energy actions.

A Workgroup member commented that the market would always expect a price from actions to be taken (as indicated by the MIP), and noted the difference between predicted energy demand and actual energy demand. They noted that the MIP was based on predicted demand and that this should also be applied to a VOAA. Elexon disagreed and believed that the requirement of a VOAA was to be based on actual data rather than predictions. A Workgroup member questioned whether the MIP would be permissible if energy actions were taken, but that weren't marginal. Elexon believed this was allowed, *(post meeting note: it is likely that many/all of these scenarios would not trigger VOAA usage anyway, as the replacement price would be the energy price)*.

A Workgroup member commented on the requirements of the EBGL that requires a pricing mechanism to send adequate market signals and not be distortive. They commented that the EBGL had precedence over the ISH methodology (as the parent regulation) and so any VOAA should satisfy these requirements as a priority. Elexon agreed with this position and advised that in approving the ISH regulation, ACER had indicated that the EBGL and ISH requirements were compatible. The Proposer noted that early indication of Ofgem views would be helpful to ensure flexibility in a solution that would benefit the industry. The Ofgem representative responded it was not able to approve a Modification that didn't meet legal requirements or deadlines.

A Workgroup member questioned whether the demand could be defined as the position at gate closure. That way there would always be demand and so there would be no need to define a VOAA. Elexon advised that the definition of no demand was a TSO driven process and that the NETSO had no involvement in the forward markets and so this would not be appropriate. Another member suggested that the NETSO could be required to always take a forward action, but some members believed this may be distortive to the market.

The Workgroup discussed whether Bids and Offers were considered Replacement Reserve (RR) or Frequency Restoration Reserve products (FRR). Elexon advised that Ofgem needed to approve any specific products, but that products are also able to be classified as RR/FRR based on their characteristics without this sign off. The NETSO considers that all Bids or Offers will be either RR or FRR, depending on the characteristics of the response. The Workgroup noted that NIV tagged actions were discounted as balancing energy and so increased the number of Settlement Periods where a VOAA would be needed. They believed that if 'balancing energy' were redefined to include NIV tagged actions, then there would be very few Settlement Periods that needed a VOAA. Elexon advised that the principle of NIV tagged actions being system rather than balancing energy was established under P360, and that any

redefining would require this issue to be revisited, potentially resulting in significant changes to the way the imbalance price can be calculated. Some Workgroup members believed this should be explored.

Elexon presented its analysis to the Workgroup. It noted that a VOAA was concerned with submitted rather than accepted prices, but that in GB these were the same. Bid offer activations can therefore be used as a filter to give a range of submitted prices that could be considered by a VOAA calculation. In its analysis it had tried a range of filters to leave a pool of meaningful prices that a VOAA methodology could be applied to. Elexon advised that the VOAA was concerned with the value of avoided actions for energy purposes rather than completely avoided actions, it therefore considered that actions taken for system reasons would have been available had there been an energy need.

A Workgroup member commented that providers of [Frequency Restoration] services are paid the MIP for any energy they deliver. They therefore believed that the MIP would be compatible as an input for the VOAA. Elexon agreed to check whether this would constitute a bid price and so be an allowable solution.

On considering the filters that Elexon had investigated, the Workgroup noted that it was looking for an output that have a sensible proxy for the price when the normal pricing mechanism was not applicable. One member commented that disalignment with the MIP was not necessarily a bad thing and believed that comparison with the system price would be more valuable. Elexon agreed to extend its analysis to include a comparison with the system price, particularly for Settlement Periods where the price was set by the MIP.

Workgroup members commented that the calculation of a VOAA would need to be transparent as the market would need to be able to make predictions – as it does with the MIP. One member notes that imbalance pricing was intended to send incentivising signals to the market, but that the market wouldn't have access to flagged actions in time to respond. They commented that as a VOAA was calculated after a Settlement Period, the market would make predictions of the VOAA ahead of the Settlement Period to manage their position.

One Workgroup member did not feel happy with Elexon's suggested solution for a Settlement Period where no actions had been taken, but noted that as it was an exceptionally rare occurrence the materiality was comparatively low and no viable alternatives had been proposed.

Elexon proposed some governance options for a solution, either hardcoding it into the BSC or referring a new Configurable Item that would allow a more flexible solution. The Workgroup noted that the MIP was calculated with a Configurable Item and that it make sense for a VOAA to follow suit.

The Workgroup questioned how any brexit agreement would affect the legal requirements. They noted that EU law had been transcribed into domestic law, but questioned whether Ofgem as the Authority would be able to repeal parts that it didn't think were suitable for GB. Ofgem agreed to confirm how enforcement of the EBGL would work post-brexit.

Actions

1. Elexon will do more analysis to compare our outputs against imbalance prices comparison where the MIP is setting the price
2. Elexon to investigate whether the MIP can be brought into scope for a VOAA with Frequency Restoration products.
3. Elexon to some diagrams to help explain the issue, categorisation of actions and the proposed solution
4. Ofgem to confirm enforcement and alteration of EBGL requirements post-brexit