

The background features a large, stylized white arrow pointing to the right, set against a blurred image of a modern building with a glass facade and a large, glowing light fixture. The overall color palette is dominated by blues, whites, and oranges.

Electricity Cash-out SCR Principles and Scope

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Jamie Black

Purpose of this discussion

- To gain feedback from stakeholders on our proposed principles and scope for the SCR
- To understand stakeholders' views of the key areas for consideration
- To initiate discussion with industry
 - We acknowledge the complexity of the issues and recognise the need for early and active industry engagement

Defining the principles

- The principles are designed to provide a framework for assessing potential modifications to the cash-out arrangements.
- Some options for reform that we may consider could require trade offs between these principles.
- We will ensure that in applying the principles we are furthering our principal objective and statutory duties.
- We have updated our principles in response to the feedback of stakeholders
- We will also consider other market developments such as Government's Electricity Market Reform and the European Target Model.

Proposal to amend Principle 1

Cash-out arrangements should, ~~as far as possible~~ **as far as is efficient**, allow and provide incentives for market participants to balance their positions without the need for unilateral actions to be taken by the System Operator (SO)

- *The SCR should not be restricted by the idea that self-balancing is always more efficient than SO balancing*

Proposal to amend Principle 2

The incentives for balancing should reflect the value of ~~peak~~-energy **in each settlement period** ensuring that customers receive the level of security of supply that they would be willing to pay for

- *Customers place a value on SoS at all times, not just peak*

Proposal to amend Principle 3

SO **energy balancing** actions should be ~~adequately reflected and participants should be incentivised to reduce the cost of system actions~~

- *Terminology is used for non-market actions which are not reflected in the cash-out price, eg actions to resolve transmission constraints.*
- *Should participants be incentivised to balance their own positions, or to ensure that the system is balanced overall?*

Proposal to amend Principle 4

More generally, the wider balancing arrangements (including balancing mechanisms and cash-out) should promote the most efficient operation of the system, **and enable** ~~including~~ the active engagement of the demand side

- *Ofgem has a statutory duty to promote efficiency by licensees*
- *DSR should be enabled by arrangements that encourage efficient operation of the system*

Defining the scope of the SCR

- The scope of the SCR will define which potential areas for reform we will consider during the course of the SCR.
- We aim to have a scope sufficiently wide to investigate options we believe could protect the interests of existing and future consumers.
- We have not opted for either the “wide scope” or the “narrow scope” from the issues paper. Rather we have included elements of both in our proposed scope, taking into consideration respondents’ views.

Proposed out of scope (1)

Imbalance tolerance band – *Proposed that it could help participants manage risk created by spread*

- BSC Mods (P201 and P202) proposed an imbalance tolerance band for suppliers – Ofgem rejected them in 2006 because they would reduce commercial incentives to balance, lead to a reduction in liquidity, and allow undue advantage to small suppliers. We have no reason to believe that this is not still the case

Main price based on within-day market price – *Proposed that it could reduce spread risk and create more simple, transparent cash-out prices*

- Unlikely to effectively reflect scarcity

Number/type of bid/offer submissions available – *industry work underway reviewing BM inputs ability to reflect flexibility of multi-shaft plant*

- This may be a step removed from cash-out

Proposed out of scope (2)

Indicative cash-out prices – *to allow participants to have sight of the cash-out price*

- Self-defeating prophecy?

Amending the credit arrangements – *to counteract the increased credit requirement that more marginal prices may have*

- While improvements could be made, the SCR does not feel like the correct vehicle to address this. If issues are identified, we suggest that these be taken forward by other industry processes

Centralised renewables market – *to enable the SO to better manage intermittency on the system*

- Separate market could be discriminatory?

Gross mandatory pool – *some commentators have called for a return to the pool*

- level of disruption to the market too great

Proposed in scope (1) *Cash-out price inputs and calculation*

Single price – *is it appropriate for there to be two prices for energy in the same period?*

More marginal main price - *could this help to ensure that security of supply is appropriately valued?*

Attributing a price to non-costed actions – eg VOLL – to ensure that cash-out prices are not set below the value of energy to consumers and pass this on to consumers - *could this help to ensure that security of supply is appropriately valued and provide more equitable outcomes in the event of outages?*

Improved allocation of reserve costs – *could SO reserve costs be more accurately reflected?*

Proposed in scope (2) *The balancing framework*

Removal of production and consumption accounts - *Could this reduce imbalance risk and hence costs without negatively affecting competition or incentives to balance?*

'Pay-as-clear' in the balancing mechanism - *Is it possible to derive a "clearing price" for energy trades in the balancing mechanism?*

Proposed in scope (3)

The balancing framework - more extensive reforms

Balancing Energy Market - *Could a balancing energy market or some other approach allow the separation of system and energy imbalances and hence the price formation to be made more transparent?*

Day-Ahead Reserve Market - *Could a new central arrangement allow the SO and other market participants purchase reserve more effectively?*

Proposed in scope- Secondary areas for consideration? (1)

Information imbalance charge

- Would this be necessary as part of a balancing energy market, should it be considered absent a balancing energy market?
- Should ongoing industry work in this area continue outside of the SCR?

Amending Residual Cashflow Reallocation Cashflow (RCRC)

- Consideration will be given to whether the current arrangements for RCRC remain appropriate or whether longer-term reform is required

Amending the reverse price

- The reverse price is reviewed annually by the panel, could the basis for this price be improved?

Changing gate closure

Proposed in scope- Secondary areas for consideration? (2)

Forecast of energy imbalance (NIV)

- SO already predicts NIV... Scope to be improved? In any case a self-defeating prophecy?

Greater data transparency and reporting of bidding behaviour (ie unaccepted BOAs)

- Is there information that could be made public which would enable more efficient balancing without harming information holders

Extending contract notification – allowing participants to trade out their imbalance after gate closure

- Driven by 'systems issues'?

Alternate arrangements for balancing renewables

- Could alternative arrangements for renewables allow intermittency to be managed more efficiently?

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

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