

Recommendations from CORWG - Derivation

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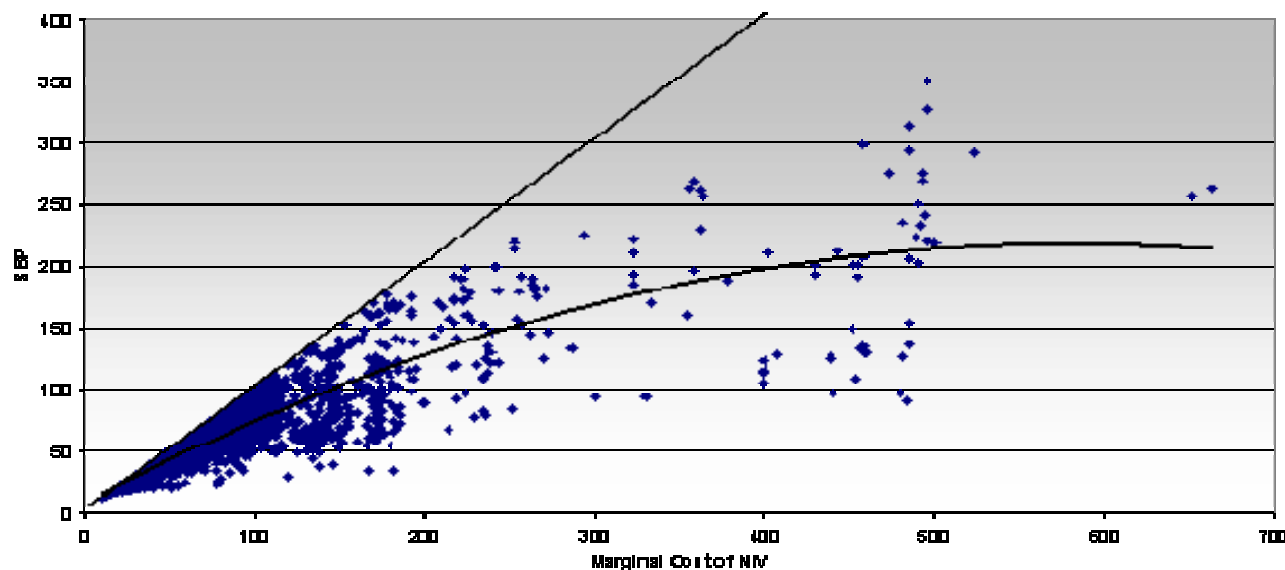
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Sub-group findings

Derivation

- Average does not tend to marginal as theory suggests, particularly at times of system stress

Divergence between Marginal Cost of Energy Balancing and Average Pricing (SBP) - When NV is Short



Sub-group findings (2)



Electricity

- Several barriers identified to explain this, including:
 - System actions in stack
 - Imperfect information
 - Timing issues (gate closure)
- Gameability too difficult and risky to be an issue



Gas

- Barriers generally absent in gas market
- Group raised no concerns with derivation of cash-out price in gas

Solutions discussed by sub-group

Defect?

- The group did not reach a consensus on whether or not a 'defect' exists

Possible solutions

- Modification Proposal P194
- Pure marginal
- Other values of 'PAR' (chunky marginal)
- All solutions would be more acceptable if tagging imperfections were corrected

Derivation: Ofgem initial views

Derivation

- Live mod limits ability to comment
- Ofgem notes that sub-group found average is not tending to marginal due to barriers
- May increase the case for marginal pricing but wider issues must also be considered

P194 IA

- Number of important issues in the IA/decision:
 - Mod must be assessed against current baseline
 - Tagging imperfections are not necessarily a barrier to accepting P194, but will be key risk and important part of assessment
 - Incentive for gaming increased under more marginal system, will need to consider opportunity and ability.

What's next?

P194 IA

- Published early January
- Final decision by 23rd March for November implementation

Tagging

- Removing all system trades from stack would improve cost-reflectivity of all derivation methods