

Electricity Balancing Significant Code Review (EBSCR) Stakeholder Event 4

Date: Friday 12 October 2012
Location: Elexon, 350 Euston Road, London

1. Session 1 – Secondary Consideration: Reserve Market

- 1.1. Jamie Black (JB) of Ofgem outlined the potential benefits from introducing a reserve market and presented three straw men to prompt discussion among stakeholders. JB highlighted that a reserve market may be more beneficial in the future when there is the potential for spikier cash-out prices.
- 1.2. One participant asked about the context for discussing a reserve market, and whether Ofgem had identified any clear problems that a reserve market could address. Ofgem said that the increasing penetration of intermittent generation and potentially higher cash-out prices may create a situation where a reserve market is desirable as an additional option for parties to insure against imbalance charges.

Discussion Groups

- 1.3. Ofgem invited views on the potential value of having an organised market for reserve, potentially at the day-ahead stage.
- 1.4. Participants discussed how this would fit with the current market arrangements and whether it is a solution to an existing problem in the market, or one that may occur in the future.
- 1.5. Generally workshop participants questioned whether a reserve market would benefit the market, and thought that only the SO needs reserve, not generators and suppliers. Participants were of the view that generators and suppliers would purchase any shortfall in the intra-day energy markets rather than a reserve market.
- 1.6. There was general agreement that a reserve market would need to have high liquidity for it to be effective. Further, participants said that high intraday liquidity would reduce the need for a reserve market, and insufficient intraday liquidity would create practical barriers to a successful reserve market.
- 1.7. On the way that mainland Europe use reserve, participants noted that many countries have gate closure much further away from real time which would create a greater need for a reserve market. However, in the GB electricity market, gate closure is closer to real time so there may not be as much need for a reserve market.
- 1.8. Participants felt it would be better to have gate closure closer to real time and increase trading options close to gate closure rather than introduce a reserve market.
- 1.9. Participants also raised practical concerns for the implementation of a reserve market. These related to the constraints in GB and how these would work with a reserve market. If reserve options were bought in the market but turned out to be behind a constraint, they would not be of use to participants so the SO may have to flag and tag all these option contracts as well as other actions which would be complicated.

- 1.10. On interactions with the EU Target Model, it was noted that the outcome of discussions in Europe could have a significant impact on the way we treat reserve in the UK, and that Ofgem should be involved in these discussions as much as possible.
- 1.11. Participants noted that National Grid have recently conducted a review of their reserve arrangements which resulted in the current arrangements, and therefore questioned why a reserve market was being considered.
- 1.12. Participants raised interactions with the Capacity Mechanism, with one participant saying that if DECC decide to design the CM to be based on delivered energy, a reserve market would not be required.

2. Session 2 – Secondary Considerations

- 2.1. Emma Burns (EB) presented the other secondary considerations under the SCR for discussion. EB highlighted that these are contingent on decisions made about the primary considerations.

Discussion Groups

Information imbalance charge

- 2.2. On discussion of the problem of deviating from Physical Notifications (PNs), National Grid said that the only significant problems they are having are due to wind-related output, which they are engaging with industry about. Participants also noted that there is already an incentive through the cash-out price to improve accuracy of forecasting.
- 2.3. Participants discussed the current provisions in the Grid Code to penalise participants for deviation from their PNs and were of the view that these would provide a much bigger incentive than an information imbalance charge. Ofgem said that the current arrangements could be seen as a blunt instrument and suggested an information imbalance charge could be more effective in certain circumstances.
- 2.4. It was noted that an information imbalance charge relating to PNs could hamper liquidity. Ofgem clarified that the consideration related to the FPNs, which are submitted after trade ceases.
- 2.5. Participants then discussed situations when an information imbalance charge may be needed, such as introducing a proposal similar to the P282 modification or a Balancing Energy Market.
- 2.6. Some participants then discussed that if an information imbalance charge was introduced, that it should be netted off BSUoS charges, and set at an administrative value for simplicity.

Improved provision of information

- 2.7. Ofgem asked whether there is value in providing more information to the market to help balancing.
- 2.8. Participants noted that they are required to meet new informational requirements under REMIT and agreed that putting REMIT data on a central platform would be helpful.
- 2.9. One participant said information on constraints would help parties understand the calculation of the cash-out prices, which could improve signals to the market, but acknowledged the potential impact of releasing this information on market power

behind constraints. Parties also discussed whether there would be benefits in requiring physical information to be submitted by parties who are not currently obliged to do so, such as embedded generation.

- 2.10. One group discussed the usefulness of the information currently provided. They noted that parties currently use all information which is made available but that small players may be less able to use the full amount of information available either due to a lack of resource or a lack of understanding of the data.
- 2.11. It was also discussed whether the ex-post work by the SO to assess the accuracy of P217A flagging used an appropriate methodology, and that more information around the actions of the SO to flag bids and offers would be useful.
- 2.12. Participants thought this consideration should also be discussed with traders as they use the data on a day-to-day basis.

Amending gate closure

- 2.13. Ofgem asked what participants thought the benefits would be of moving gate closure closer to real time.
- 2.14. Participants discussed how gate closure is effectively half an hour before actual gate closure due to the current contract notification system (single notification). It was suggested that the deadline for submitting contract notifications could be extended which would avoid the significant costs associated with changing the current systems and processes used to generate contract notifications. It was also suggested that the timestamp of the trades could be used as to show that the trade occurred before gate closure.
- 2.15. There was agreement that intermittent renewable generation would benefit from being able to trade closer to real time, but only if there was sufficient liquidity available in the same period.
- 2.16. Participants discussed the trade-off between allowing participants to trade closer to real time and increasing the SO's costs due to them having less time to take the necessary actions.
- 2.17. On ex-post trading, one participant suggested that this was currently possible through use of financial contracts, but that the dual cash-out price made it difficult to obtain a robust reference price. It was suggested a single cash-out price may encourage ex-post trading because it would provide a clear reference price.

Residual Cashflow Reallocation Cashflow (RCRC)

- 2.18. Participants discussed that RCRC is a result of some features of the current market arrangements, such as a dual cash-out price, and separate incentive (cash-out) and cost recovery (BSUoS) mechanisms. Therefore it should not be a driver for reform.
- 2.19. Participants agreed that many of the primary considerations, particularly a single price, would reduce RCRC but some could increase RCRC, for example a more marginal dual cash-out price.

Reverse price

- 2.20. Participants said that the combination of trades that goes into the reverse price is consulted on every year, so there may be limited reasoning behind changing the methodology to calculate the reverse price under the current balancing arrangement structure.

3. Session 3 – Policy packages and Next Steps

- 3.1. Jamie Black (JB) presented slides looking at the potential combinations of policy considerations, highlighting packages that may not be viable due to incompatibility, for example pay-as-clear in the balancing mechanism with a PAR value greater than one.

Policy Packages

- 3.2. There was general agreement that it is helpful to explore the considerations both individually, as well as how they fit together in a package as the SCR develops towards the draft decision.

Interactions

- 3.3. Ofgem reinforced messages from previous events that one of the reasons to undertake the SCR now is to improve our ability to influence the development of the Target Model and decisions being made in Europe, rather than being passive. One participant noted that discussions were proceeding in Europe on the target model encouraged GB industry to actively engage.
- 3.4. Participants asked about the interactions with DECC's Capacity Mechanism (CM) and how much engagement there had been to acknowledge the overlap, particularly in trying to solve the 'missing money' problem. Participants also highlighted the importance of working towards a coherent design between all of the ongoing changes to the electricity market. Ofgem noted that there is ongoing engagement between Ofgem and DECC around the interactions, meeting on a regular basis to ensure cash-out arrangements and EMR policies are consistent and complementary.

Process

- 3.5. One participant suggested that in the next stage of policy development, the policy considerations could be qualitatively assessed against the multiple SCR objectives to identify the policy packages that should be taken forward in the most detail. Ofgem agreed that this would be part of its approach and noted that both a qualitative and quantitative assessment of the considerations and packages would feed-in to the impact assessment to be published alongside the draft decision.
- 3.6. Participants expressed a preference for further stakeholder events once DECC has outlined its EMR policies in more detail and the Ofgem team have been able to do further work on the policy considerations. Ofgem noted that stakeholder engagement was an important part of the SCR process and that it would consider the best way to engage with stakeholders going forward.

Next Steps

- 3.7. Participants asked how stakeholder feedback from events would be recorded and taken forward. Ofgem said stakeholder views will be recorded in the minutes and formal consultation responses.
- 3.8. Ofgem presented an indicative timeline, outlining the intention for the next document to be a draft decision document, presenting Ofgem's 'minded-to' policy package. This will then be consulted on before a final decision is made and the code and licence modification change process begins.
- 3.9. Participants asked how much detail there would be in the draft decision document and how much would be left to the code and licence modification process. Stakeholders suggested that it may be useful to involve stakeholders in the detailed

design of any modifications so that they are practically sound. Going forward, Ofgem will consider the most appropriate way to engage stakeholders in order to gain the most effective and timely input into the development of proposals.