

Electricity Balancing SCR

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Steps leading to SCR launch

2010: Project Discovery highlighted long-standing concerns



November 2011: Electricity cash-out issues paper published



March 2012: Decision to launch SCR of electricity balancing arrangements announced



April 2012: Stakeholder event held on scope of SCR

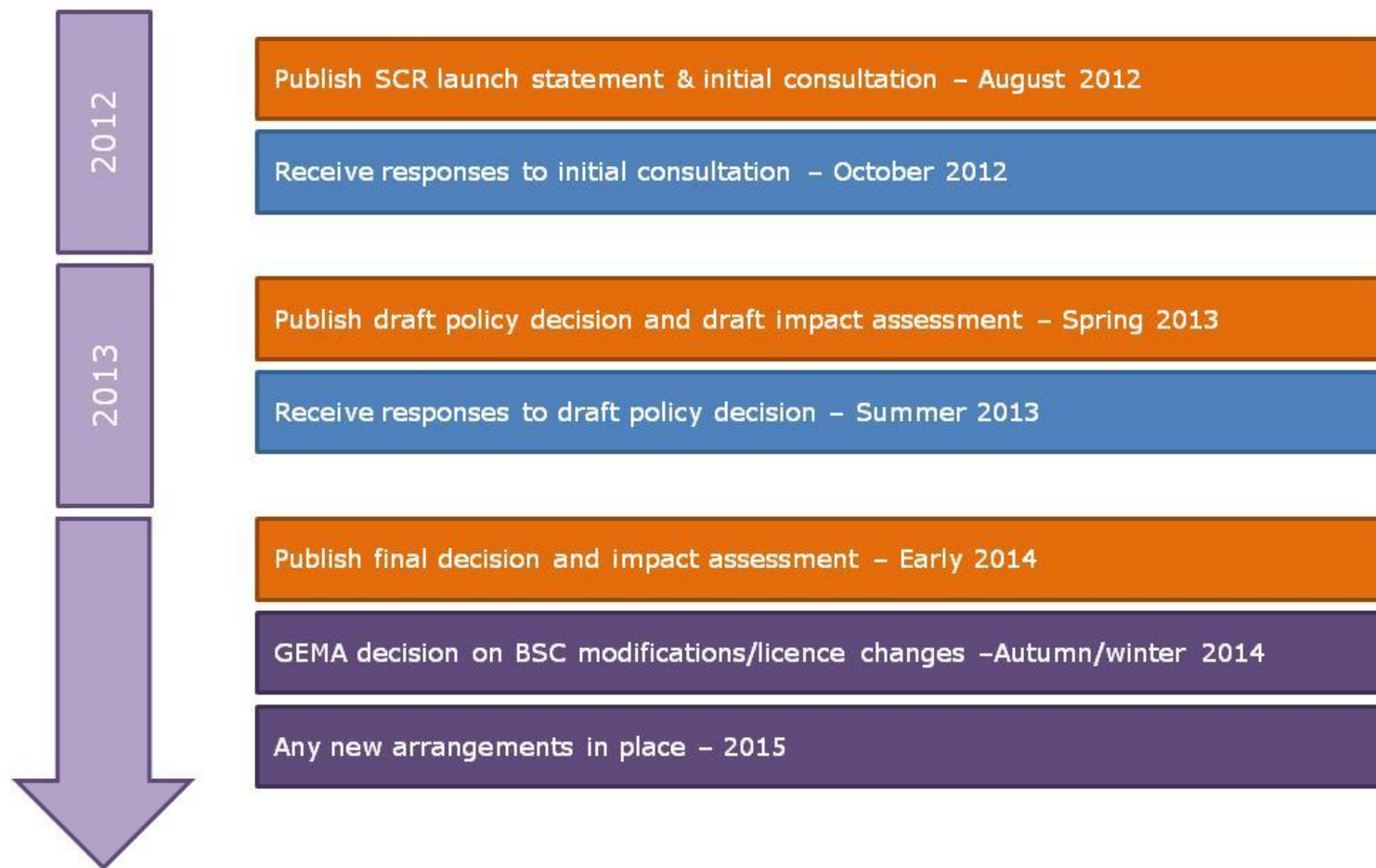


August 2012: SCR launched with publication of initial consultation

Reasons for launching the SCR

- Dampened and inaccurate prices may provide insufficient incentives to balance and invest
- Failing to consider potential reform could harm future security of supply and unnecessarily increase system balancing costs
- Need to ensure arrangements remain fit for purpose in light of large challenges in energy markets
- Reviewing now:
 - assists input into EU developments and consideration of how target model will be implemented
 - allows changes to complement the Electricity Market Reform capacity mechanism

Indicative electricity balancing SCR timetable



Electricity Balancing SCR Objectives

- Incentivise an efficient level of security of supply
 - incentivise optimal level of investment
 - pay firm customers appropriately for the DSR service they provide if their demand is involuntarily interrupted
 - incentivise plant flexibility and DSR
- Increase the efficiency of electricity balancing
 - minimise market distortions due to the need for the SO to balance the system
 - incentivise participants to balance their position as far as is efficient
 - appropriately reflect the SO's cost for balancing in cash-out prices
- Ensure our balancing arrangements are compliant with the European Target Model and complement the EMR Capacity Mechanism
 - align GB balancing arrangements with EU balancing and capacity allocation and congestion management framework guidelines
 - work closely with the Department of Energy and Climate Change (DECC) to ensure cash-out arrangements and the EMR CM complement each other

SCR Scope: Primary Considerations

- SCR launched with a wide scope
- Initial consultation highlights 'considerations' to improve balancing arrangements
 - 8 primary (focus of SCR)
 - 6 secondary (focus dependent on design choices under primary)
- Primary considerations separated between:
 - Changes to existing balancing arrangements
 - Improvements to price inputs
 - New balancing arrangements

SCR Scope: Primary considerations

Changes to existing arrangements

More marginal main cash-out price

Single or dual cash-out price

Single or separate trading accounts

Pay-as-Bid or Pay-as-Clear for energy balancing services

Improvements to price inputs

Attributing a cost to non-costed actions

Improved allocation of reserve costs

New balancing arrangements

Balancing Energy Market

Alternative arrangements for renewables

SCR Scope: Primary considerations

Changes to existing arrangements

More marginal main cash-out price

Cash-out price may not fully reflect scarcity on system

Single or dual cash-out price

Dual cash out price has large spread: increases risk and complexity

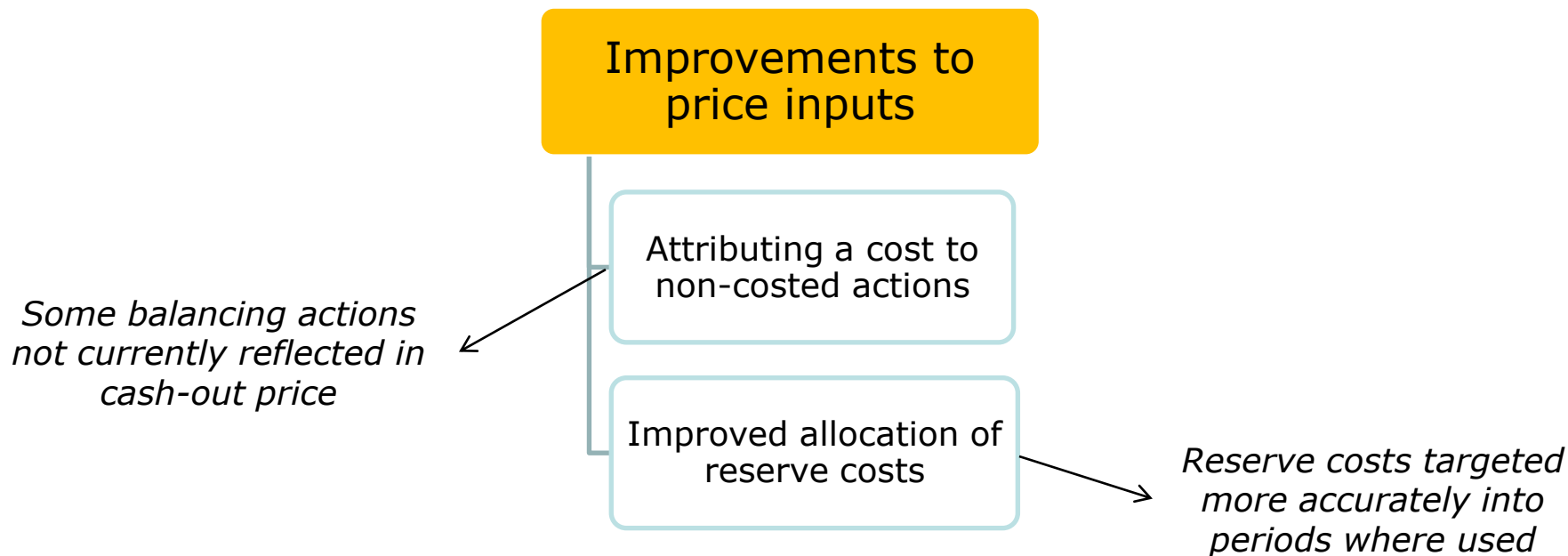
Single or separate trading accounts

Combining imbalance settlement could improve efficiency for parties

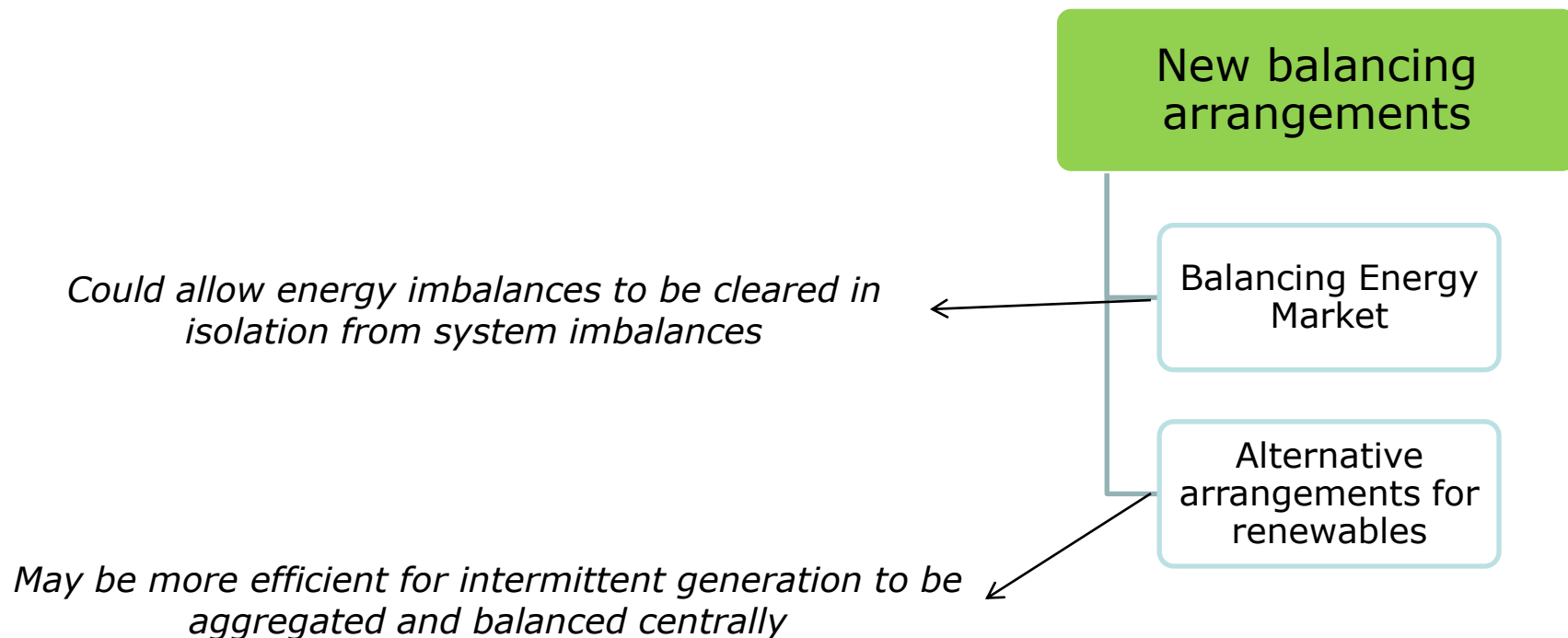
Pay-as-Bid or Pay-as-Clear for energy balancing services

Current arrangements could lead to inefficient despatch of balancing services

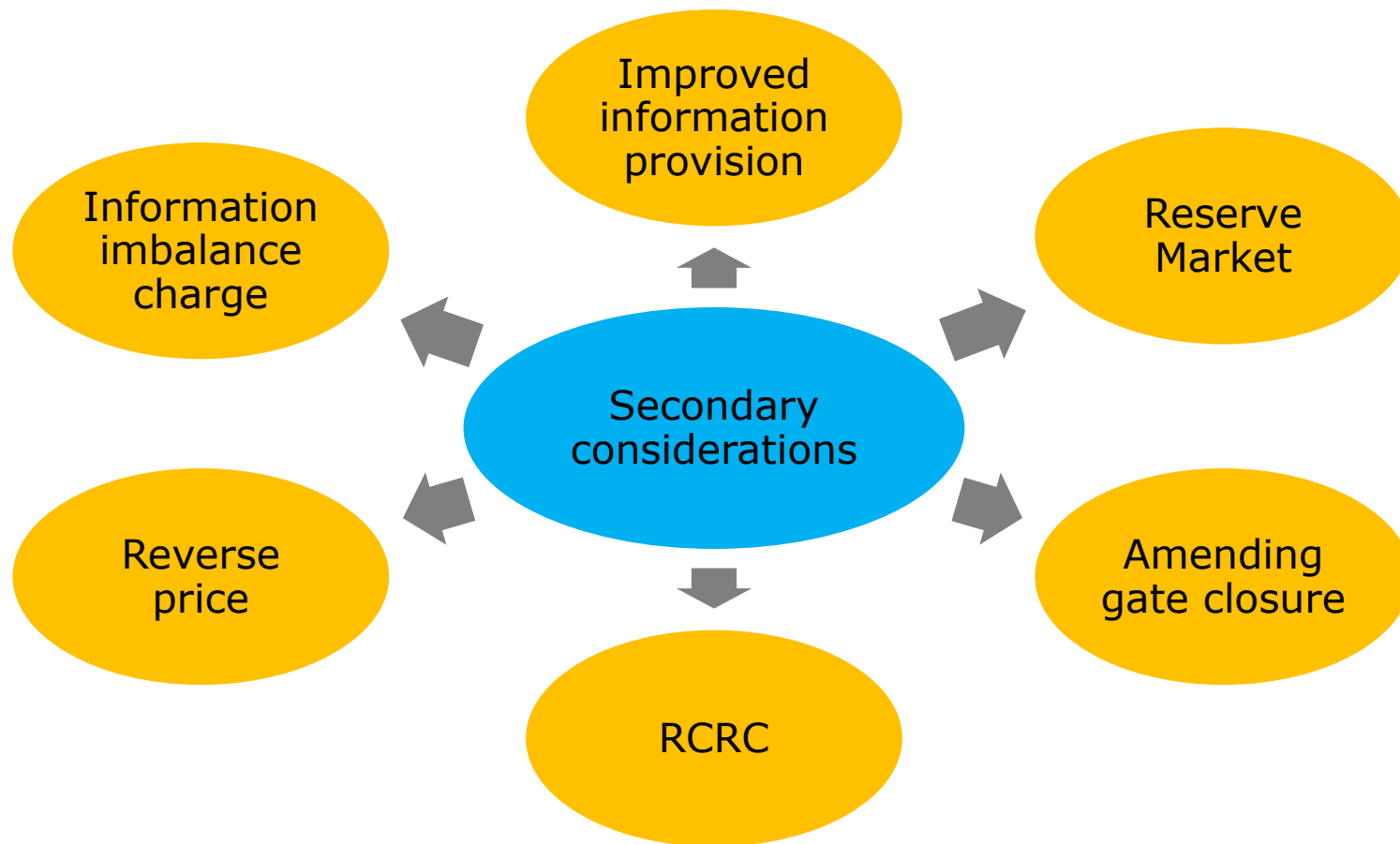
SCR Scope: Primary considerations



SCR Scope: Primary considerations



SCR Scope: Secondary Considerations



Potential policy packages

More market-like ↓	Improved price inputs	Single or dual cash-out?	Main price calculation	Pay-as-bid or clearing price in the BM	Single or separate trading accounts?	Important secondary considerations?	
		1	Dual (ex-post)	PAR 500	Pay-as-bid	Separate trading accounts	RCRC, Reverse Price
		2	?	?	?	?	?
		3	Single (ex-post)	Marginal price	Pay-as-clear	Single trading account	Information imbalance charge
	4 "BEM"	Single cash-out price (ex-ante)	Marginal price (based on forecast of imbalance)	Pay-as-clear	Single trading account	Information imbalance charge, forecast of NIV, gate closure	

Indicative criteria for assessment of potential reform options

Criteria	Key Considerations
Ensure a secure and reliable electricity supply	<ul style="list-style-type: none"> Impact on incentives for parties to balance Duration, severity and probability of outages occurring
Impact on consumers	<ul style="list-style-type: none"> Impact on costs of balancing and consumer bills Arrangements where supplies are interrupted Impact on vulnerable customers
Efficient balancing	<ul style="list-style-type: none"> Efficiency of the cash-out price Cost allocation of emergency balancing actions Possibility for participation of demand-side response (DSR)
Impact on competition	<ul style="list-style-type: none"> Impact on liquidity Barriers to entry including credit requirements
Impact on investment	<ul style="list-style-type: none"> Incentives for investment in capacity
Risks and unintended consequences	<ul style="list-style-type: none"> Probability of financial distress for market participants Potential for gaming of balancing mechanism Impact on SO incentives to procure balancing services Impact on gas markets
Integration of European markets	<ul style="list-style-type: none"> Promotion of the internal market Compliance with TM
Impact on sustainability	<ul style="list-style-type: none"> Impact on sustainable development and management of transition to a low carbon economy
Other impacts, costs and benefits	<ul style="list-style-type: none"> Environmental impacts Implementation costs Ongoing administrative costs

SCR Key interactions

- European Target Model (TM)
 - aim to ensure content/timing of any changes maximises opportunities to complement the TM, and complies with the TM legislation
- EMR Capacity Mechanism (CM)
 - before implementation of any reforms, we will consider impact on effectiveness of CM
- Ongoing BSC modifications
 - Raised pre-launch: normal modification process applies
 - Raised post-launch: GEMA will decide if it falls within the scope of the SCR

Next steps

Stakeholder events during initial consultation period		
Opening seminar and Workshop 1	<ul style="list-style-type: none"> Opening seminar Workshop 1: Consideration of a Balancing Energy Market and Improvements to price inputs 	7 Sept 2012 10:00 – 17:00
Workshop 2	<ul style="list-style-type: none"> Single or dual cash-out prices Pay-as-bid or pay-as-clear for energy balancing services 	24 Sept 2012 09:30 – 13:00
Workshop 3	<ul style="list-style-type: none"> More marginal main cash-out price Single or separate trading accounts Alternative arrangements for renewables 	3 Oct 2012
Workshop 4	<ul style="list-style-type: none"> Policy packages Interactions with other market developments Secondary considerations 	12 Oct 2012

- Initial consultation closes on **24 October 2012**
- Next step is to publish draft decision and draft IA in spring 2013



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