

Potential Policy packages

These slides are initial thoughts to aid discussion only. They are not in any way meant to signify the views of GEMA, which for the avoidance of doubt has not made any decisions on this particular issue.

Context

- The SCR process is intended to allow wide-ranging and consistent change
- We are taking into account interactions between different policy considerations
- Considering potential reform packages on a spectrum between the current arrangements and more “market like” arrangements
- Attributes of our electricity market have led to arrangements that could be considered less market like

Does our approach to packaging options aid the decision making process?
Should some considerations be prioritised at this stage?

SCR Objectives

- Incentivise an efficient level of security of supply
 - incentivise optimal level of investment (through appropriate price signals)
 - pay firm customers appropriately for the DSR service they provide if their demand is involuntary interrupted
 - incentivise plant flexibility and DSR
- Increase the efficiency of electricity balancing
 - minimise market distortions due to the need for the system operator (SO) to balance the system
 - incentivise participants to balance their position as far as is efficient
 - appropriately reflect the SO's costs for balancing in cash-out prices
- Ensure our balancing arrangements are compliant with the TM 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 DECC to ensure cash-out arrangements and the EMR CM complement each other

We will assess which package of options would best facilitate these objectives

Some practical considerations leading to current arrangements

Need to balance the system

- dual price to encourage participants to balance (not spill)

BM used for multiple purposes

- averaging reduces system pollution of the cash-out price

Incentives for VI and self supply

- separate trading accounts to encourage trading

Experience of market power

- pay-as-bid for re-despatch by the SO

Range of 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	

Potential packages for consideration

- Are some packages logically inconsistent?

Single/dual	PAR	PaB/PaC	Single/ Separate ac.
Dual	500	PaB	Separate
Dual	500	PaB	Single
Dual	500	PaC	Separate
Dual	500	PaC	Single
Dual	1	PaB	Separate
Dual	1	PaB	Single
Dual	1	PaC	Separate
Dual	1	PaC	Single
Single	500	PaB	Separate
Single	500	PaB	Single
Single	500	PaC	Separate
Single	500	PaC	Single
Single	1	PaB	Separate
Single	1	PaB	Single
Single	1	PaC	Separate
Single	1	PaC	Single

Potentially inconsistent combinations:

Are PaC and PAR > 1?

Single cash-out and separate accounts?

Others?

Key:

Current arrangements

Potentially inconsistent?

- NB – Other PAR levels left out for simplicity

Can some potential packages be ruled out?

Summary of questions

- Does our approach to packaging options aid the decision making process?
- Should some considerations be prioritised at this stage?
- Can some potential packages be ruled out?



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