

ISG194-SPAR

REPORTING ON MAY 2017

ISSUE 20 – PUBLISHED 27 JUNE 2017

SYSTEM PRICE ANALYSIS REPORT

The System Prices Analysis Report (SPAR) provides a monthly update on price calculations. It is published by the ELEXON [Market Analysis Team](#) to the Imbalance Settlement Group (ISG) and on the ELEXON Website ahead of the monthly ISG meeting.

This report provides data and analysis specific to System Prices and the Balancing Mechanism¹. It demonstrates out-turn prices and the data used to derive the prices. The data is a combination of II and SF Settlement Runs.

In addition to the SPAR, a 12 month post-P305 review has also been published looking back to the start of P305, which can be downloaded from the ELEXON [website](#).

1 SYSTEM PRICES AND LENGTH

This report covers the month of May. Where available, data uses the latest Settlement Run (in most cases 'II' or 'SF').

In this report we distinguish between a 'long' and a 'short' market when analysing System Prices because the price calculation differs between two scenarios. When the market is long, System Prices will be based predominantly on the System Operator's 'sell' actions such as Accepted Bids. When the market is short, System Prices will instead be based predominantly on the System Operator's 'buy' actions. **Table 1.1** gives a summary of System Prices for May 2017.

Graph 1.2 shows the distribution of System Prices across Settlement Periods in the last month when the market was long and short.

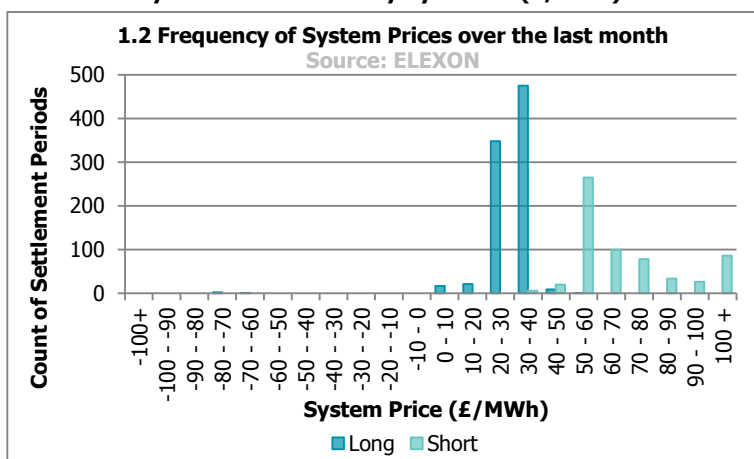
In May 2017 2% of System Prices were between £40/MWh and £50/MWh regardless of system length. When the System was long, 94% of prices were between £20/MWh and £40/MWh. When the System was short, 59% prices were between £50/MWh and £70/MWh with 14% of prices over £100/MWh.

The lowest System Price in May 2017 was -£73.13/MWh this occurred during Settlement Period 18 when the system was long on 28 May 2017. There were three Settlement Periods with negative System Prices in May 2017 (compared

| System Price (Long) | | | | | |
|---------------------|--------|-------|--------|-------|---------|
| Month | Min | Max | Median | Mean | Std Dev |
| May 2017 | -73.13 | 50.00 | 30.09 | 28.54 | 7.74 |

| System Price (Short) | | | | | |
|----------------------|-------|----------|--------|-------|---------|
| Month | Min | Max | Median | Mean | Std Dev |
| May 2017 | 35.00 | 1,509.80 | 60.58 | 80.50 | 98.72 |

1.1 System Price summary by month (£/MWh)



¹ For further detail of the Imbalance Price calculation, see our imbalance pricing guidance: <https://www.elexon.co.uk/reference/credit-pricing/imbalance-pricing/>

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to three in April 2017). All of these occurred on 28 May 2017 for Settlement Periods 17 to 19. The negative prices on this day were set by Bids from eight Wind BMUs.

System Prices exceeded £100/MWh 86 times in May (compared to 46 times in April). These high prices were seen in 6% of Settlement Periods regardless of length. The highest System Price was £1,510/MWh in Settlement Period 33 on 17 May 2017. There were three System Prices over £1,000/MWh in May 2017, these are examined in detail in Appendix 1 at the end of this report.

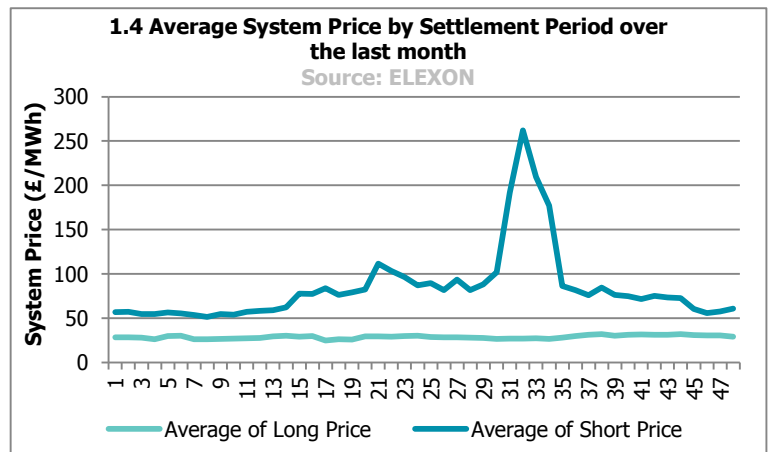
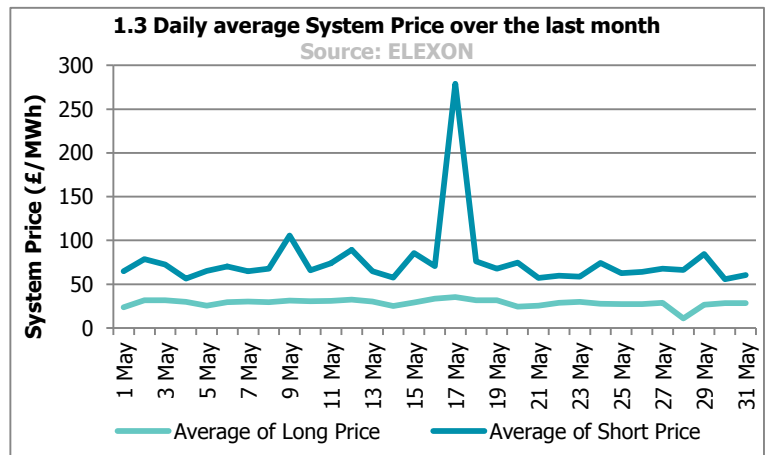
The lowest System Price when the system was short (£35/MWh) occurred at Settlement Period 16 on 4 May 2017 and Settlement Period 8 on 17 May 2017.

Graph 1.3 shows daily average System Prices over the last month. In May, the average System Price when the system was long was £28.54/MWh and short was £80.50/MWh.

The highest daily average price when the system was short was £279.04/MWh and occurred on the 17 May. This day is examined in more detail in Appendix 1.

Graph 1.4 shows the variation of System Prices across the day. Short prices were highest in Settlement Period 32 and long prices lowest in Settlement Period 17. The lowest average System Prices regardless of market length was seen during Settlement Period 9 when the System Price was on average £32.13/MWh.

Long prices show little variance over settlement periods, with the price typically between £20/MWh and £35/MWh. Short Prices peak during Settlement Period 32, this is due to a System Price of £1,510/MWh during this Settlement Period.

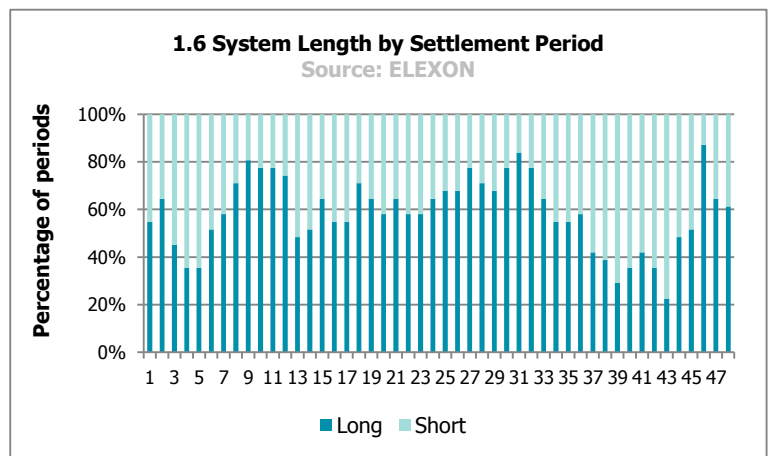
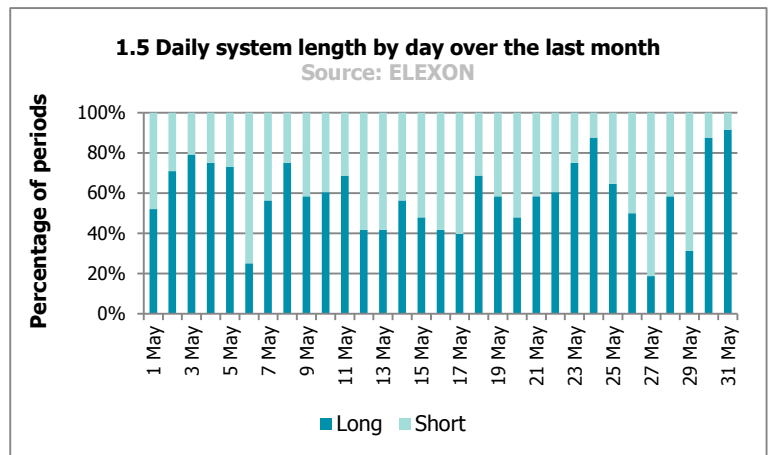


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Graph 1.5 shows system length by day, and **Graph 1.6** shows system length by Settlement Period for May. The system was long for 59% of Settlement Periods in May, compared to 72% in April.

On 27 May the system was short for 81% of Settlement Periods. The average NIV while the system was short on this day was 400MWh.

Settlement Period 43 was short for 77% of the month, making it the shortest Settlement Period in May 2017.



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2 PARAMETERS

In this section we consider a number of different parameters on the price. We consider:

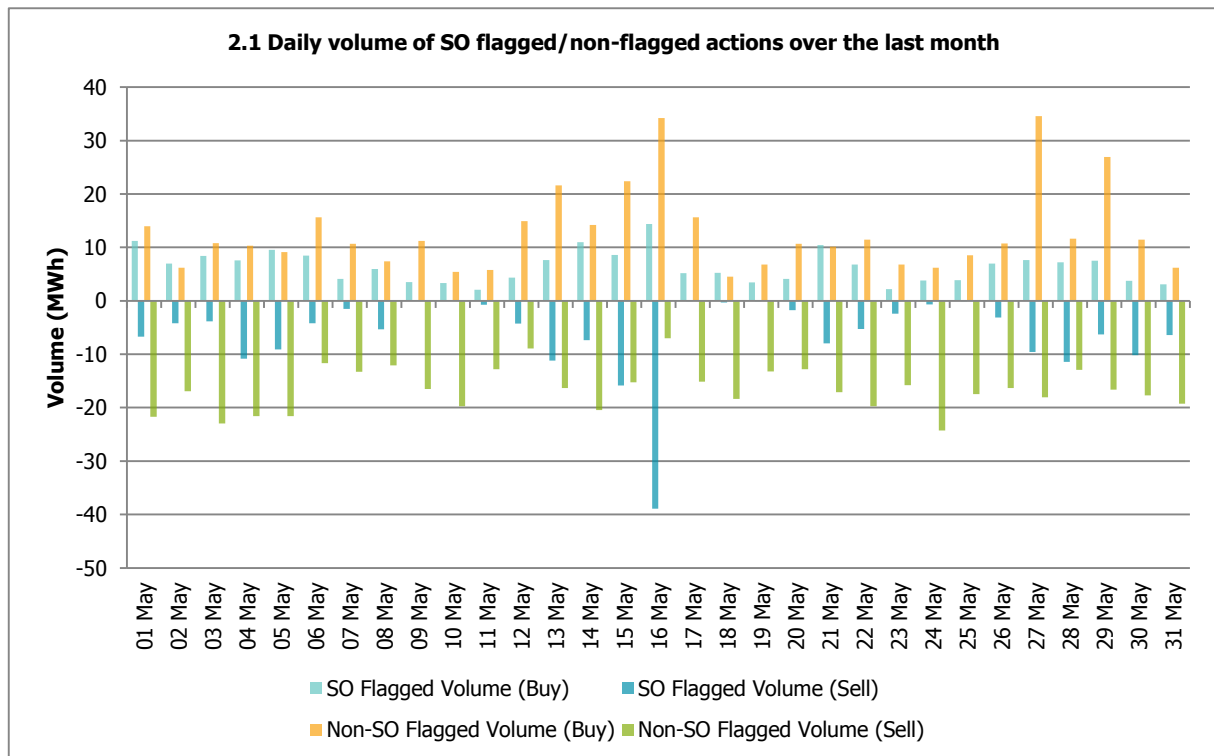
- The impact of flagging balancing actions;
- The impact of NIV tagging;
- The impact of PAR tagging;
- The impact of the Replacement Price; and
- How these mechanisms affect which balancing actions feed into the price.

Flagging

The Imbalance Price calculation aims to distinguish between 'energy' and 'system' balancing actions. Energy balancing actions are those which are related to the overall energy imbalance on the system (the 'Net Imbalance Volume'). It is these 'energy' balancing actions which the Imbalance Price should reflect. System balancing actions are actions which relate to non-energy, system management actions (e.g. locational constraints).

Some actions are 'flagged'. This means that they have been identified as potentially being 'system related', but rather than removing them completely from the price calculation (i.e. tagging them) they may be re-priced, depending on their position in relation to the rest of the stack (a process called Classification). Actions are flagged by the System Operator when they are taken to resolve a locational constraint on the transmission network (SO-flagging), or when they are taken to correct short-term increases or decreases in generation/demand (CADL Flagging).

Graph 2.1 shows the volumes of buy and sell actions that have been flagged by the SO in May 2017 as being constraint related.



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27% of sell balancing actions taken in May had an SO-flag. 56% of SO-flagged sell actions came from Balancing Services Adjustment Actions (BSAAs), 24% from Wind BMUs and 14% from CCGT BMUs. The average initial price (i.e. before any re-pricing) of a SO-flagged sell action was -£37.72/MWh.

33% of buy balancing actions taken in May had an SO-flag. 71% of SO-flagged buy actions came from BSAAs and 28% CCGT BMUs. The average initial price of a SO-flagged buy action was £73.90/MWh.

Any actions which are less than 15 minutes total duration are CADL flagged. 2% of buy actions and less than 1% of sell actions were CADL flagged in May. The majority of CADL flagged buy (90%), and 48% of sell actions, came from Pumped Storage BMUs.

SO-flagged and CADL-flagged actions are known as 'first stage flagged'. First stage flagged actions may become 'second stage flagged' depending on their price in relation to other un-flagged actions. If a first stage flagged balancing action has a more expensive price than the most expensive first stage un-flagged balancing action it becomes second stage flagged. This means that it is considered a system balancing action and becomes unpriced.

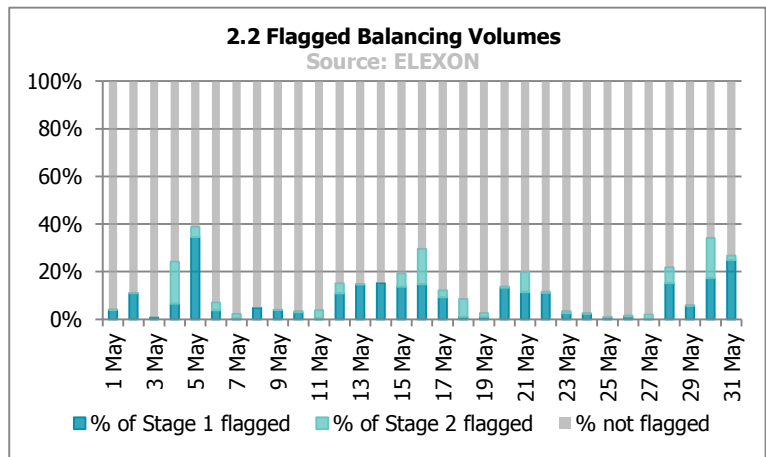
Graph 2.2 shows first and second stage flagged action volumes as a proportion of all actions taken on the system. Note these are all balancing actions that were accepted – only a proportion of these will feed through to the final price calculation.

The Replacement Price

If there are 'second stage' flagged action volumes left in the NIV, these will be unpriced, as was the case for less than 1% of Buy and 1% of Sell actions in May. Unpriced actions are assigned a Replacement Price, currently based on the most expensive 1MWh of un-flagged actions.

Sell actions will typically have their prices revised upwards by the Replacement Price for the purposes of calculating the System Price. In May, the average original price of a second stage flagged sell action was -£23.50/MWh, and the average Replacement Price for sell actions (when the System was long) was £28.51/MWh.

For Buy actions the opposite is true, as they will typically have their prices revised downwards by the Replacement Price when calculating the System Price. In May, the average original price of a second stage flagged buy action was £94.92/MWh, and the average Replacement Price for buy actions (when the System was short) was £76.94/MWh.



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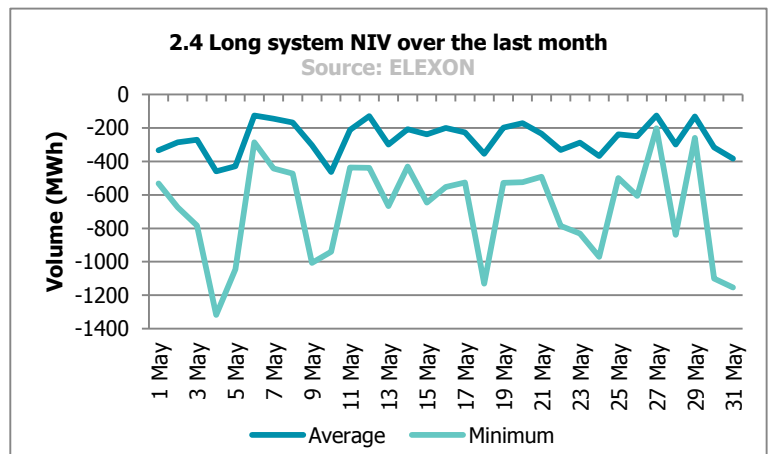
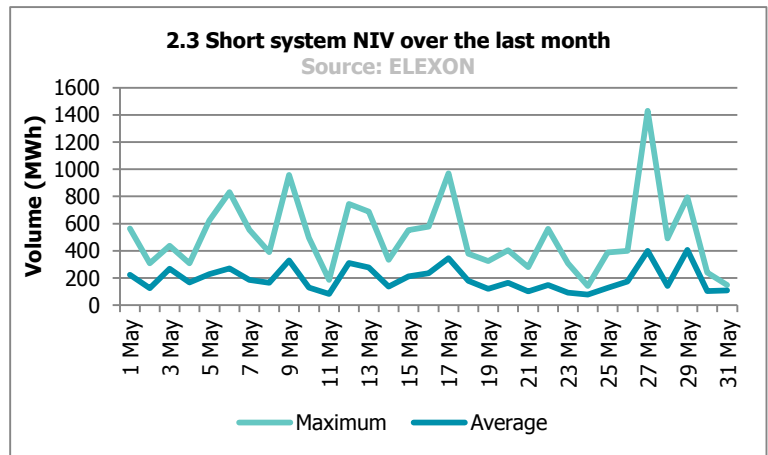
NIV and NIV tagging

The Net Imbalance Volume (NIV) represents the direction of imbalance of the System – i.e. whether the system is long or short overall.

Graph 2.3 shows the greatest and average NIV when the system was short and **Graph 2.4** shows greatest and average NIVs when the system was long. Note short NIVs are depicted as positive volumes and long NIVs are depicted as negative volumes.

In almost all Settlement Periods the System Operator will need to take balancing actions in both directions (buys and sells) to balance the system. However, for the purposes of calculating an Imbalance Price there can only be one imbalance in one direction (the Net Imbalance). 'NIV tagging' is the process which subtracts the smaller stack of balancing actions from the larger one to determine the Net Imbalance. It is from these remaining actions that the price is derived.

NIV tagging has a significant impact in determining which actions feed through to prices. 70% of volume was removed due to NIV tagging in May. Because the most expensive actions are NIV tagged first, NIV tagging has a dampening effect on prices when there are balancing actions in both directions.



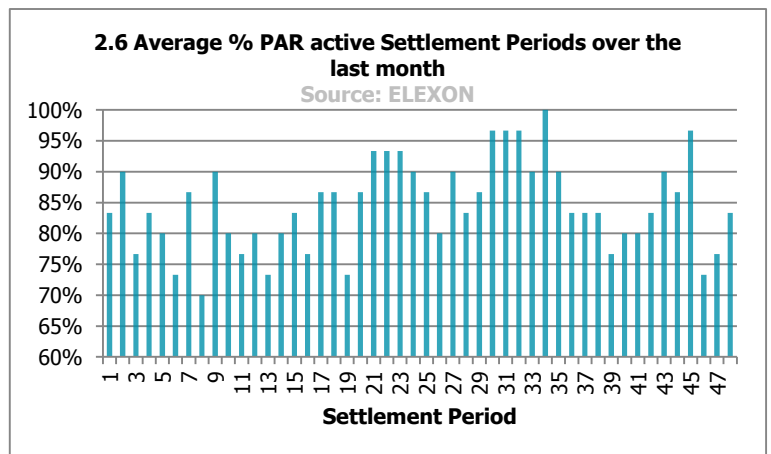
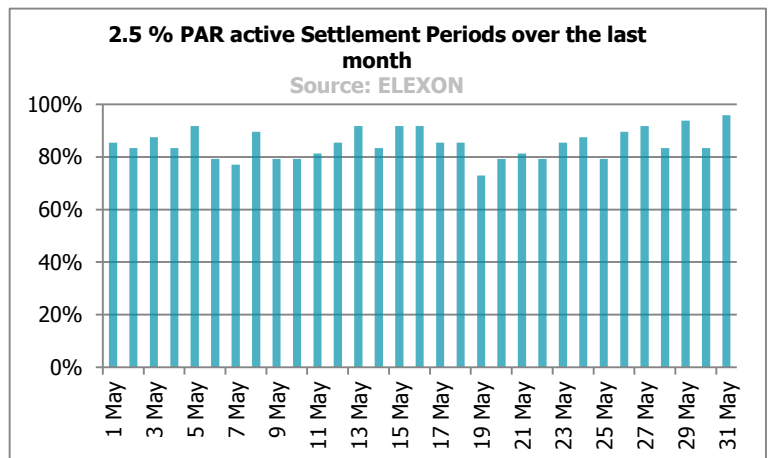
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PAR tagging

PAR is the final step of the Imbalance Price calculation. It takes a volume weighted average of the most expensive 50MWh of actions left in the stack. PAR is currently set to 50MWh, but is due to decrease to 1MWh on 1 November 2018.

The impact of PAR tagging across the month can be seen in **Graph 2.5**. PAR tagging is active, when there are more than 50MWh of actions left in the NIV following the previous steps of Imbalance Price calculation. Only the most expensive 50MWh are used in the calculation, so any volumes greater than 50MWh are 'PAR tagged' and removed from the Imbalance Price calculation stack.

Graph 2.6 shows the proportion of Settlement Periods over the last month when PAR tagging was active. PAR tagging was active in Settlement Period 34 for all days in May 2017.



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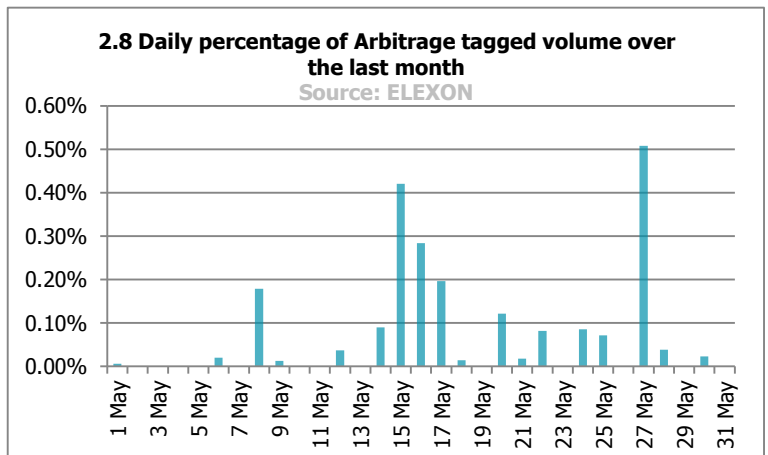
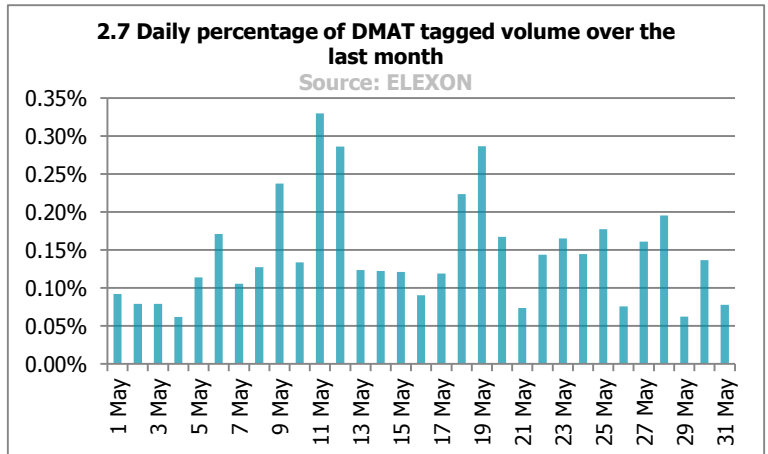
DMAT and Arbitrage Tagged Volumes

Some actions are always removed from the price calculation (before NIV tagging). These are actions which are less than 1MWh (De Minimis Acceptance Threshold (DMAT) tagging) or buy actions which are either the same price or lower than the price of sell actions (Arbitrage tagging).

Graph 2.7 shows the volumes of actions which were removed due to DMAT tagging. 0.13% of buy and sell volume was removed by DMAT tagging. 49% of DMAT tagged volume came from CCGT BMUs and 40% from Balancing Services Adjustment Actions (BSAAs).

Graph 2.8 shows the volumes of actions that were removed due to Arbitrage tagging. 41% of Arbitrage tagged volume was from CCGT BMUs and 22% from Wind BMUs.

In May the average initial price of an Arbitrage tagged Buy action was £38.71/MWh, average price for a sell action is £49.63/MWh.



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3 BALANCING SERVICES

Short Term Operating Reserve (STOR) costs and volumes

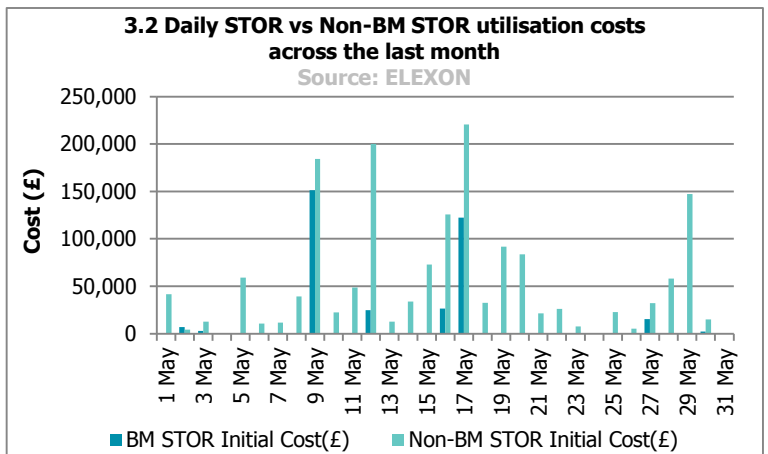
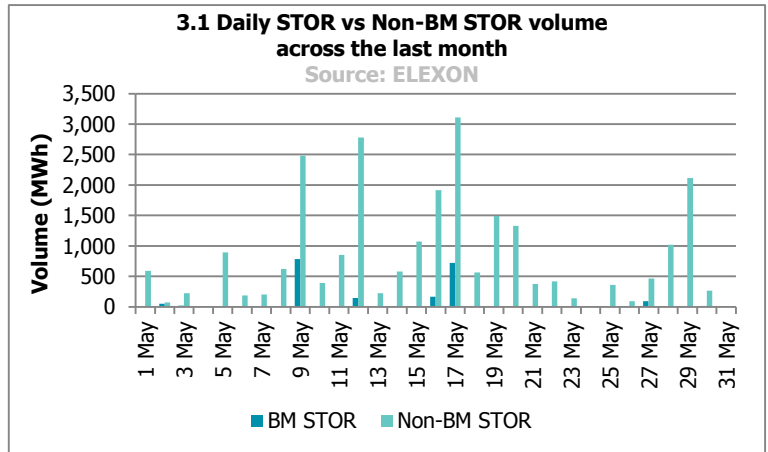
This section covers the balancing services that the System Operator takes outside the Balancing Mechanism that can have an impact on the price.

In addition to Bids and Offers available in the Balancing Mechanism, the SO can enter into contracts with providers of balancing capacity to deliver when called upon. These additional sources of power are referred to as reserve, and most of the reserve that the SO procures is called Short Term Operating Reserve (STOR).

Under STOR contracts, availability payments are made to the balancing service provider in return for capacity being made available to the SO during specific times (STOR Availability Windows). When STOR is called upon, the SO pays for it at a pre-agreed price (its Utilisation Price). Some STOR is dispatched in the Balancing Mechanism (BM STOR) while some is dispatched separately (Non-BM STOR).

Graph 3.1 gives STOR volumes that were called upon during the month – split into BM STOR and non-BM STOR. **Graph 3.2** shows the utilisation costs of this capacity. 93% of the total STOR utilised in May came from outside of the Balancing Mechanism.

The average Utilisation Price for STOR capacity in May was £74.45/MWh (for BM STOR it was £177.25/MWh, and for non-BM STOR it was £66.22/MWh).

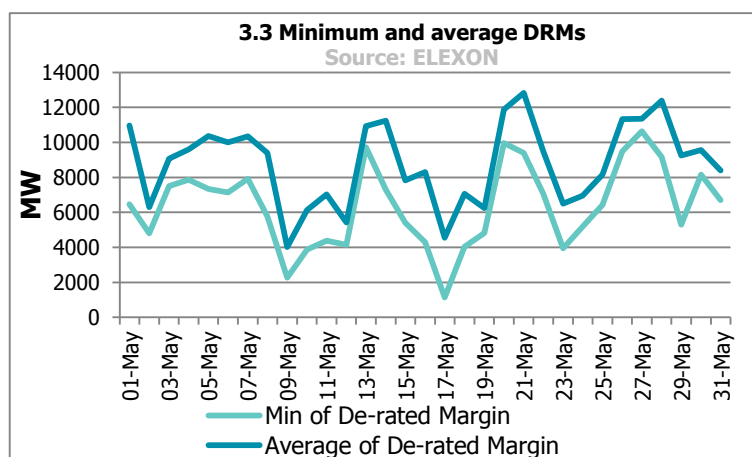


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De-rated margin, loss of load probability and the Reserve Scarcity Price

There are times when the Utilisation prices of STOR plants are uplifted using the **Reserve Scarcity Price (RSP)** in order to calculate Imbalance Prices. The RSP is designed to respond to capacity margins so that it rises as the system gets tighter (the gap between available and required generation narrows). It is a function of **De-Rated Margin (DRM)** at Gate Closure, the likelihood that this will be insufficient to meet demand (the **Loss of Load Probability, LoLP**) and the **Value of Lost Load (VoLL)**, currently set at £3,000/MWh).

Graph 3.3 shows the daily minimum and average Gate Closure DRMs for May 2017.



The System Operator has determined a relationship between each DRM and the LoLP which will determine the RSP². The minimum DRM in May was 1,130MW (April minimum 1,977MW) on 17 May Settlement Period 35.

The RSP is used to re-price STOR actions in the Imbalance Price calculation if it is higher than the original Utilisation Price. 44 STOR actions were re-priced using the RSP in May all of these occurred during Settlement Period 35 on 17 May (see **Table 3.4**). The repriced actions represented less than 1% of STOR actions over the month. All of the repriced STOR actions came from non-BM STOR and ranged in price from £55.73/MWh to £99/MWh.

3.4 Top 5 LoLPs and RSPs

| Date | SP | DRM | LoLP | RSP | RSP Used | System Length | System Price |
|------------|----|----------|--------|---------------|----------|---------------|--------------|
| 17/05/2017 | 35 | 1,130.25 | 0.0532 | 159.70 | Yes | Short | 169.50 |
| 17/05/2017 | 36 | 1,789.82 | 0.0053 | 15.83 | No | Long | 47.63 |
| 17/05/2017 | 29 | 2,106.92 | 0.0013 | 3.92 | No | Short | 285.00 |
| 17/05/2017 | 37 | 2,181.42 | 0.0009 | 2.75 | No | Long | 47.55 |
| 09/05/2017 | 19 | 2,270.41 | 0.0006 | 1.78 | No | Short | 155.00 |

² The System Operators methodology for LoLP is set out in the LoLP Methodology statement: https://www.elexon.co.uk/wp-content/uploads/2015/10/Loss_of_Load_Probability_Calculation_Statement_v1.0.pdf

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4 P305 - SPECIFIC ANALYSIS

This section compares live prices with two different pricing scenarios. First we consider what prices would look like with the **pre-P305 price calculation** to highlight the impact of P305. Before the implementation of P305, the price calculation had:

- A PAR of 500MWh, and an RPAR of 100MWh;
- No non-BM STOR volumes or prices included in the price stack;
- No RSP, and instead a Buy Price Adjuster (BPA) that recovers STOR availability fees; and
- No Demand Control, Demand Side Balancing Reserve (DSBR), or Supplementary Balancing Reserve (SBR) actions priced at VoLL.

We also consider the **November 2018 Scenario**, which captures the effect of changes to the Imbalance Price parameters that are due to come in on 1 November 2018. These are:

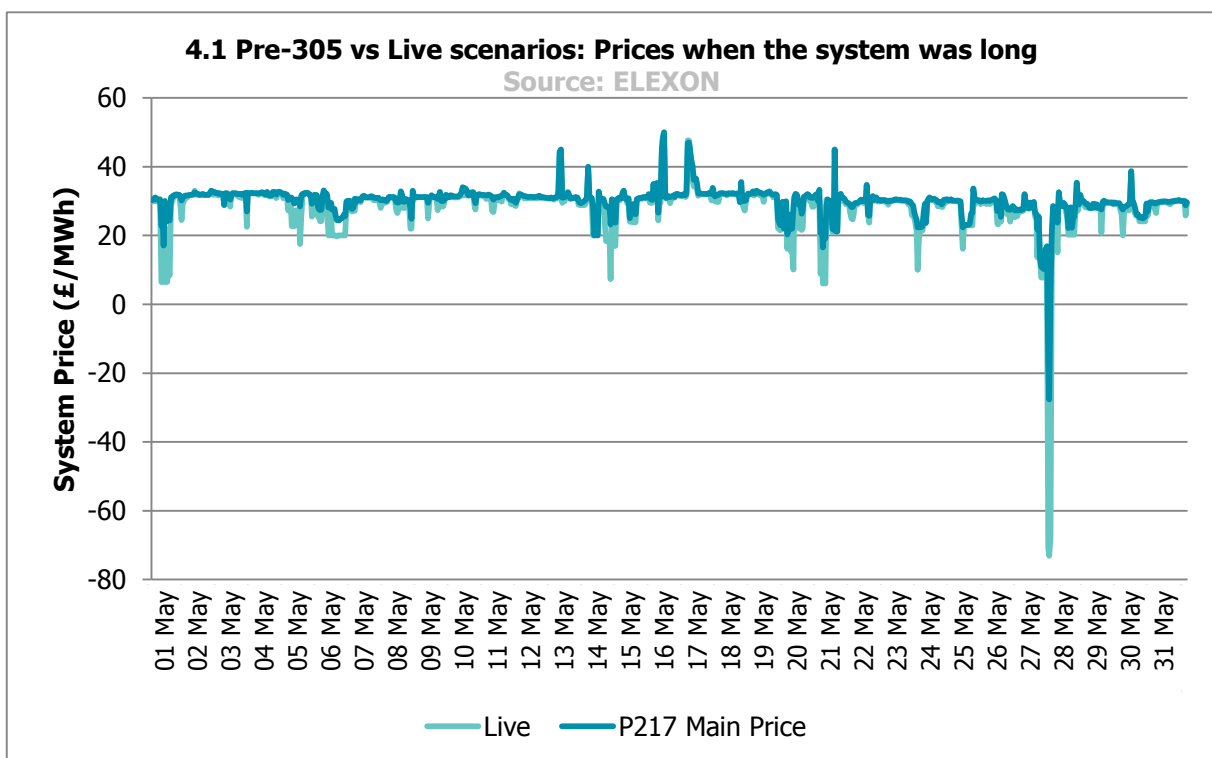
- A reduction in the PAR value to 1MWh (RPAR will remain at 1MWh);
- The introduction of a 'dynamic' LoLP function; and
- An increase in the VoLL to £6,000MWh, which will apply to all instances of VoLL in arrangements, including the RSP function.

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Pre-P305 Price Calculation

Graph 4.1 compares live System Prices when the system was long with prices re-calculated using the pre-P305 pricing scenario (for comparison we use the Main Price calculation). On average, live prices were £1.41/MWh lower when the system was long compared to the pre-P305 calculation. This is expected, in particular because of the reduction of PAR from 500MWh to 50MWh to make prices 'more marginal'. This change reduces the dampening effect of a large PAR.

When the system was long, prices were different in 79% of Settlement Periods; in 85% of these periods the change was less than £1/MWh. The biggest price change occurred on the 28 May 2017 Settlement Period 19, where the live price was -£71.34/MWh lower than the System Price would have been under the P217 Scenario. This price change is due to the reduction in PAR.



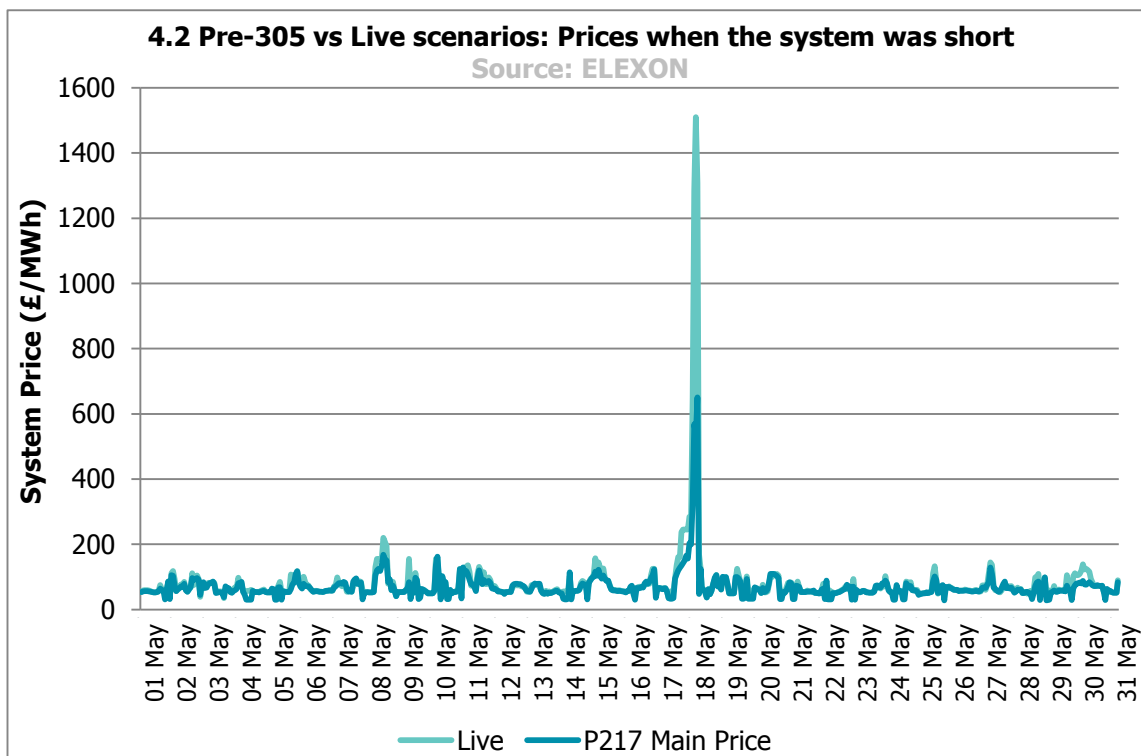
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Graph 4.2 compares live System Prices when the system was short with prices re-calculated using the pre-P305 pricing scenario (using the Main Price calculation).

Live prices were on average £11.03/MWh higher when the system was short, and 28% of short Settlement Periods had price changes greater than £10/MWh.

The biggest difference in prices when the system was short was £974.60/MWh, which happened on 17 May 2017 at Settlement Period 33 as a result of the reduction in PAR. In the P217 scenario the Main Price would have been £535.20/MWh whereas in the live scenario the System Price was £1,509.80/MWh.

The inclusion of non-BM STOR volumes in the pricing stack changed the system length from long to short in 59 Settlement Periods.

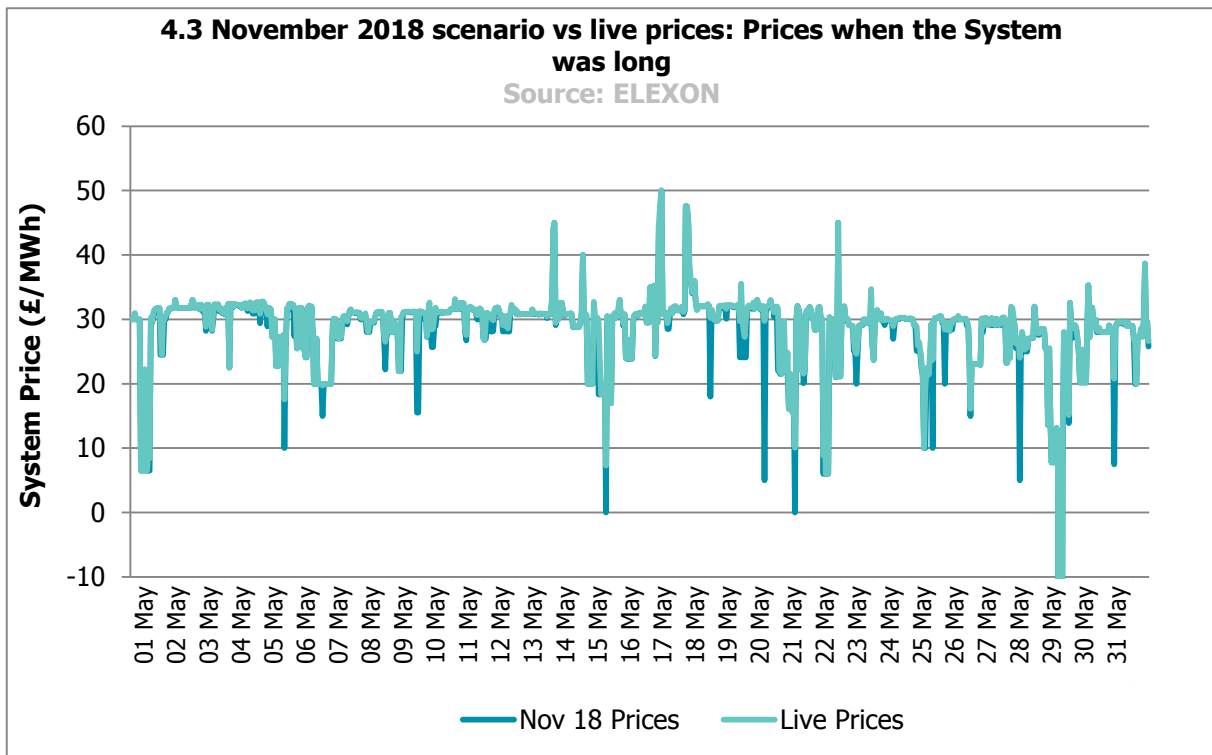


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November 2018 Price Calculation

The average price differences across the month are relatively small under the November 2018 scenario. System Prices would be £0.56/MWh lower when the system was long and £3.74/MWh higher when the system was short. There was no change in prices in 44% of Settlement Periods. Note that under the November 2018 scenario, when the system is long, prices would be the same or lower, and when the system is short, prices would be the same or higher.

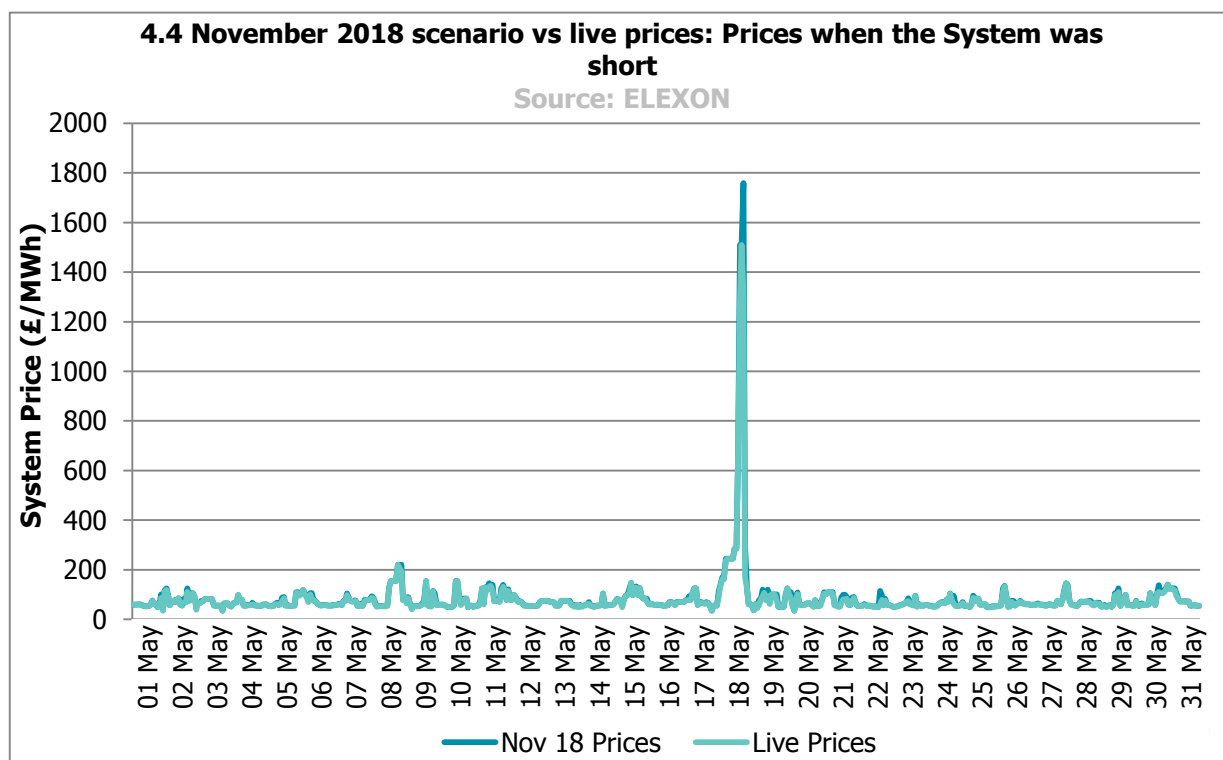
Graph 4.3 compares live System Prices with prices re-calculated using the November 2018 scenario when the system was long. The magnitude of the changes seen when the system was long was less than those when the system was short. When the system was long, price changes were less than £1/MWh in 81% of Settlement Periods and greater than £5/MWh in 5% of Settlement Period. The biggest shift in price was £24.76/MWh (Settlement Period 31 on 19 May 2017) when the price would have been £5MWh under the November 2018 scenario, compared to the current live System Price of £29.76/MWh.



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Graph 4.4 compares live System Prices with prices re-calculated using the November 2018 scenario when the system was short. Prices would be higher in 58% of short Settlement Periods under the November 2018 scenario. Of those, 26% changed by more than £5/MWh and 13% by more than £10/MWh. The biggest difference in price was £451.87/MWh (Settlement Period 34 on 34 May 2017), more detail on this Settlement Period is given in Appendix 1.

Under the November 2018 scenario, there would be 101 Settlement Periods in May 2017 with prices greater than or equal to £100/MWh, compared to 86 periods under the current live scenario.



There were no Demand Control actions taken during May 2017. Under the November 2018 scenario, these action types would be priced at a VoLL of £6,000/MWh rather than the current £3,000/MWh. Although this scenario does not capture the impact that a move to a dynamic LoLP methodology will have, the impact of the change in VoLL on the RSPs can be seen in **Table 4.5**. The RSP would have re-priced 45 STOR actions in May, this is one more action than was repriced under the live scenario. The impact of the increased RSP is examined further in Appendix 1.

4.5 Reserve Scarcity Prices with VoLL of £6,000

| Date | SP | DRM | LoLP | RSP | RSP Used | System Length | System Price |
|------------|----|----------|--------|---------------|----------|---------------|--------------|
| 17/05/2017 | 35 | 1,130.25 | 0.0532 | 319.40 | Yes | Short | 169.50 |
| 17/05/2017 | 36 | 1,789.82 | 0.0053 | 31.66 | No | Long | 47.63 |
| 17/05/2017 | 29 | 2,106.92 | 0.0013 | 7.84 | No | Short | 285.00 |
| 17/05/2017 | 37 | 2,181.42 | 0.0009 | 5.51 | No | Long | 47.55 |
| 09/05/2017 | 19 | 2,270.41 | 0.0006 | 3.55 | No | Short | 155.00 |

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5 GLOSSARY

| Term | Abbrev. | Definition |
|--|-------------|--|
| Bid | | A proposed volume band and price within which the registrant of a BM Unit is willing to reduce generation or increase consumption (i.e. a rate below their FPN). |
| Bid/Offer Acceptance | BOA | A Bid or Offer within a given Settlement Period that was Accepted by the SO. BOAs are used in the Imbalance Price calculation process e.g. to calculate NIV or the System Price. |
| Offer | | A proposed volume band and price within which the registrant of a BM Unit is willing to increase generation or reduce consumption (i.e. a rate above their FPN). |
| System Price | | A price (in £/MWh) calculated by BSC Central Systems that is applied to imbalance volumes of BSC Parties. It is a core component of the balancing and settlement of electricity in GB and is calculated for every Settlement Period. It is subject to change via Standard Settlement Runs. |
| Replacement Price | | A price (in £/MWh) calculated by BSC Central Systems that is applied to volumes that are not priced during the imbalance pricing process (detailed in BSC Section T) It is calculated for every Settlement Period, and is subject to change via Standard Settlement Runs. |
| Utilisation Price | | The price (in £/MWh) sent by the SO in respect of the utilisation of a STOR Action which: (i) in relation to a BM STOR Action shall be the Offer Price; and (ii) in relation to a Non-BM STOR Action shall be the Balancing Services Adjustment Cost. |
| Market Price | | The Market Price reflects the price of wholesale electricity in the short-term market (in £/MWh). You can find an explanation of how it is calculated and used in the Market Index Definition Statement (MIDS). |
| Reserve Scarcity Price | RSP | Both accepted BM and non-BM STOR Actions are included in the calculation of System Prices as individual actions, with a price which is the greater of the Utilisation Price for that action or the RSP. The RSP function is based on the prevailing system scarcity, and is calculated as the product of two following values: <ul style="list-style-type: none"> the Loss of Load Probability (LoLP), which will be calculated by the SO at Gate Closure for each Settlement Period; and the Value of Lost Load (VoLL), a defined parameter currently set to £3,000/MWh. |
| Replacement Price Average Reference | RPAR | The RPAR volume is a set volume of the most expensive priced actions remaining at the end of the System Price calculation, and is currently 1MWh. The volume-weighted average of these actions, known as the Replacement Price, is used to provide a price for any remaining unpriced actions prior to PAR Tagging. |
| Long | | In reference to market length, this means that the volume of Accepted Bids exceeds that of Accepted Offers. |
| Short | | In reference to market length, this means that the volume of Accepted Offers exceeds that of Accepted Bid. |
| Net Imbalance Volume | NIV | The imbalance volume (in MWh) of the total system for a given Settlement Period. It is derived by netting Buy and Sell Actions in the Balancing Mechanism. Where NIV is positive, this means that the system is short and would normally result in the SO accepting Offers to increase generation/decrease consumption. Where NIV is negative, the system is long and the SO would normally accept Bids to reduce generation/increase consumption. It is subject to change between Standard Settlement Runs. |

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6 APPENDIX 1 – A DETAILED LOOK AT SYSTEM PRICES 17 MAY 2017

In this section one of our Market Analysts, Emma Tribe takes a detailed look at the Imbalance Prices over £1,000/MWh in May. May is the second month since the introduction of BSC Modification P305 to have prices over £1,000/MWh.



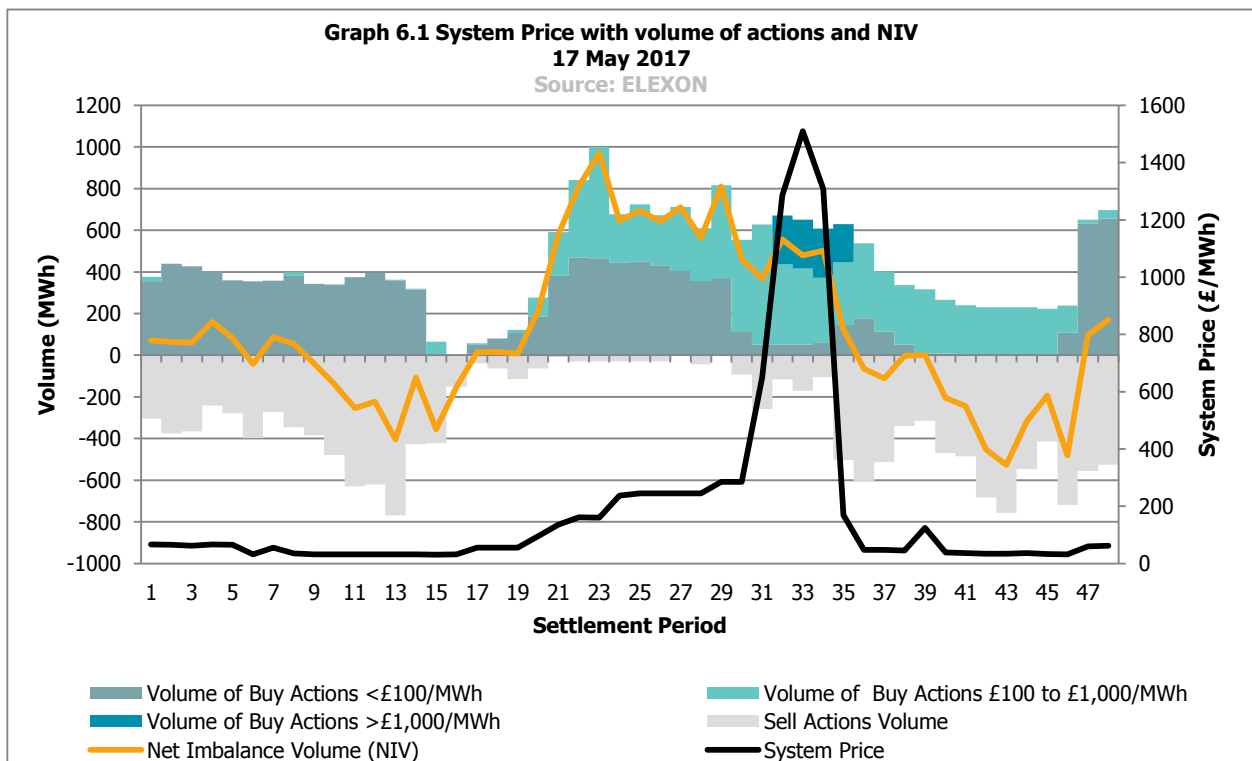
emma.tribe@elexon.co.uk

On 17 May 2017 there were three prices over £1,000/MWh, these were:

- **£1,285/MWh** during Settlement Period 32,
- **£1,510/MWh** during Settlement Period 33 and,
- **£1,308/MWh** during Settlement Period 34.

There have been two Settlement Periods with higher System Prices since the implementation of BSC Modification P305. These both occurred on 8 November 2017 during Settlement Period 26 and 28, when the System Price was £1,523/MWh and £1,529/MWh respectively.

Graph 6.1 shows the volume of buy actions by price band on 17 May 2017. 888MWh of accepted Offers during the day were priced over £1,000/MWh, this represents 4% of buy volume during the day. These high priced offers were accepted between Settlement Periods 32 to 35.



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The offers priced over £1,000/MWh did not set the System Price during Settlement Period 35 due to NIV tagging. NIV tagging removes the volume of any negative priced action and any action volume above the orange NIV line from the price calculation when the System is short. During the day the System was short for 29 Settlement Periods, the average short System Price was £279/MWh.

Graph 6.2 shows that 54% of Offers priced over £1,000/MWh came from Coal Balancing Mechanism Units (BMUs). This was 8% of the balancing volume accepted from Coal BMUs over the day.

The highest priced Offers accepted on the day were priced at £1,750/MWh from a Gas BMU.

During Settlement Period 35, 44 Short Term Operating Reserve (STOR) Balancing Services Adjustment Actions (BSAA) were repriced by the Reserve Scarcity Price (RSP). The RSP for this Settlement Period was £160/MWh. The average original price for these actions was £63/MWh. These repriced actions set the System Price for this Settlement Period combined with a Buy Price Adjuster (BPA) of £9.80/MWh.

Graph 6.3 compares the live System Price to the System Price calculated under the November 2018 calculation scenario. The average live price over the day is £183/MWh, under the November 2018 scenario this would be £200/MWh. The largest price difference occurs during Settlement Period 34 where the price would be £452/MWh higher under the November 2018 Scenario. This increase is due to the reduction in PAR.

The RSP in Settlement Period 35 would increase to £319/MWh as a result of the increase in Value of Lost Load (VoLL) to £6,000/MWh. This would change the order of the offer stack, as RSP re-priced actions would be higher up. As a result of this the Imbalance Price for this Settlement Period would increase by £125/MWh.

