Recap: key elements of the ‘market-based balancing’ Change Request

GIC workshop

5 November 2014

Basics

- preference for balancing actions ‘on market’
- daily cash-out @ marginal price (not “true marginal”…)
- cash-out price reflects price of trades in standard daily gas product on eligible Trading Platform(s) (if non-standard product used, or standard product on a Balancing Platform, price doesn’t feed in)
- level playing field at all WPs: equal primary balancing incentive preserved via trading and transmission fees on cash-outs
- marginal price evolution published ‘real time’
- staggered ‘soft landing’ implementation (the start of which can slide depending on implementation date)
- Peaking Charge softened

Notable design elements

- new s3 framework inspired by European BAL NC
- priority given to use of (loosely defined) “standard products” listed on an eligible spot market
- door left open for use of “non-standard products”, but not expected in short term
- suite of cash-out price components (MBP, MSP, AMP, COTP, COTFP – see next slide)
- “adjustment” can be applied to Average Market Price to incentivise primary balancing
- BGX retained as a “Balancing Platform”; door left open for backstop balancing contract, in case market liquidity is insufficient
- “ROIL Multiplier” (phased implementation; flexibility to accommodate ‘helpful behaviour’ to maintain stability)
- Peaking Charge: now a double test before being triggered (BG Call + LLP Threshold), rather than one or the other

What changed following consultation?

- ‘soft landing period’: multiples retained, but periods extended
  - Phase 1 (multiplier = 2): until 1 March 2016 or later date… (was 1 July 2015)
  - Phase 2 (multiplier = 1.5): six month period, regardless of start date (was hard coded: H2 2015)

- further clarifications in the “balancing product selection” provision (s3.5) to increase certainty of market preference

- improved transparency through new cash-out buy/sell price component: Cash Out Trading Fee Price (instead of providing for this effect through adjustment)
  - unweighted mean average of all categories of trading fees posted by eligible Trading Platforms

- elaboration of “default rule” provision (s12.12(f))

Cash-out pricing methodology: key elements

- Cash-Out Sell (Buy) Price = Marginal Sell (Buy) Price – (+) (Cash-Out Transmission Price + Cash-Out Trading Fee Price)
  - Marginal Sell ≠ Marginal Buy
  - COTP = proxy for avoided transmission charge
  - COTFP = proxy for avoided trading fee
- Marginal Sell Price (for long WPs): *lower* of
  - lowest net /GJ price of any BG Put on Day; or
  - Average Market Price
- Marginal Buy Price (for short WPs): *higher* of
  - highest net /GJ price of any BG Call on Day; or
  - Average Market Price
- AMP = average price of spot trades on Day_{n-1} and Day_n for delivery on Day_n
- “adjustment” ≤10%(AMP); set by MDL, posted in advance