

# Pricing Proposal - Webinar

**8 September 2021**

**Online Meeting via Teams.**

# Agenda

## Subject

Welcome and Intro

Background

Pay as Bid vs Pay as Cleared

Criteria for when PaC is better than PaB

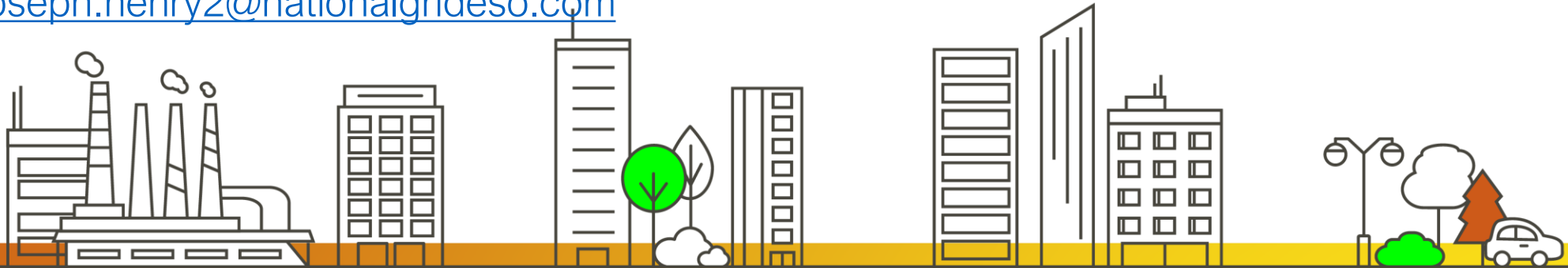
Legacy Products

Timelines

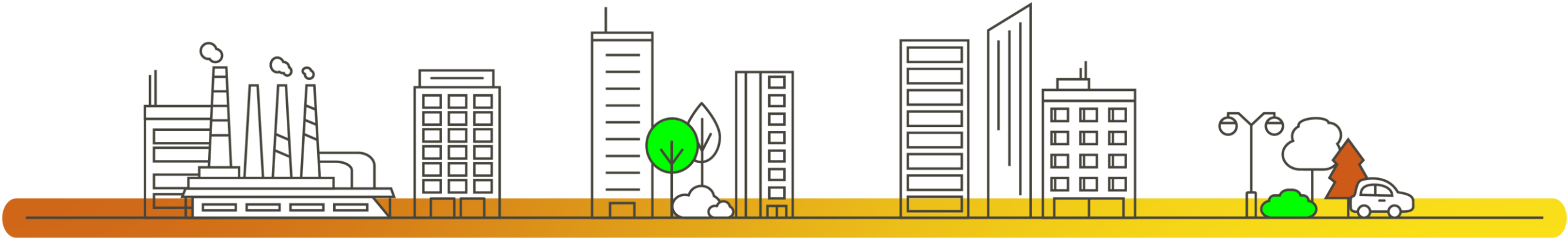
AOB

# Welcome and Intro

- We will be using Microsoft Forms to collate your Feedback
- If you have any questions please use the [Microsoft Forms](#) function – QR code available on the next slide
- If you have any questions we do not answer, we will endeavour to answer this after the session
- We are really keen to get your feedback – give us as much information as possible!
- If you wish to raise any points privately, please contact [joseph.henry2@nationalgrideso.com](mailto:joseph.henry2@nationalgrideso.com)

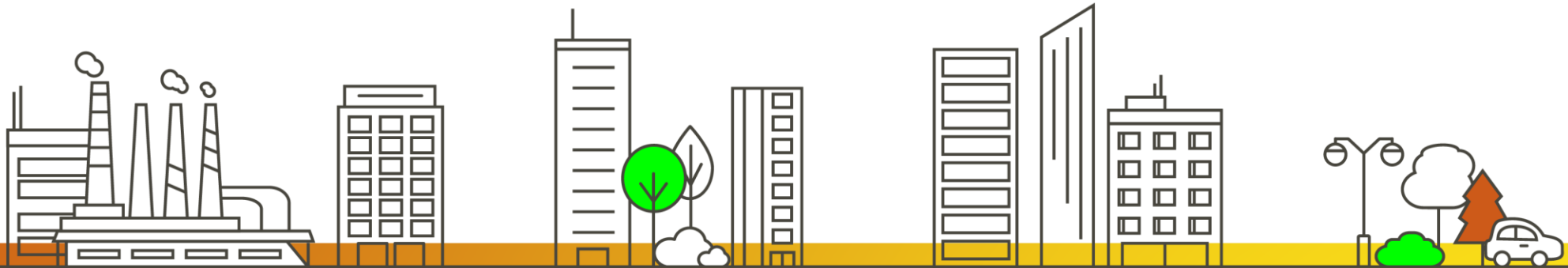


# QR Code for Survey



# Background

- Article 6(4) of the Clean Energy Package (CEP) obliges TSOs to settle balancing energy (utilisation) on a pay-as-cleared (PAC) basis for standard and specific balancing products. Currently most balancing products in GB use a pay-as-bid (PAB) settlement for balancing energy.
- Prior to the UK's exit from the European Union, Acer had approved a European Pricing Proposal (EPP) that outlined when and how PAC would be applicable. OFGEM have directed NGENSO to develop a Pricing Proposal (PP) that is specific to the GB market, negating the need for multiple derogations.
- **We are aiming for a more efficient use of Industry time and resource**



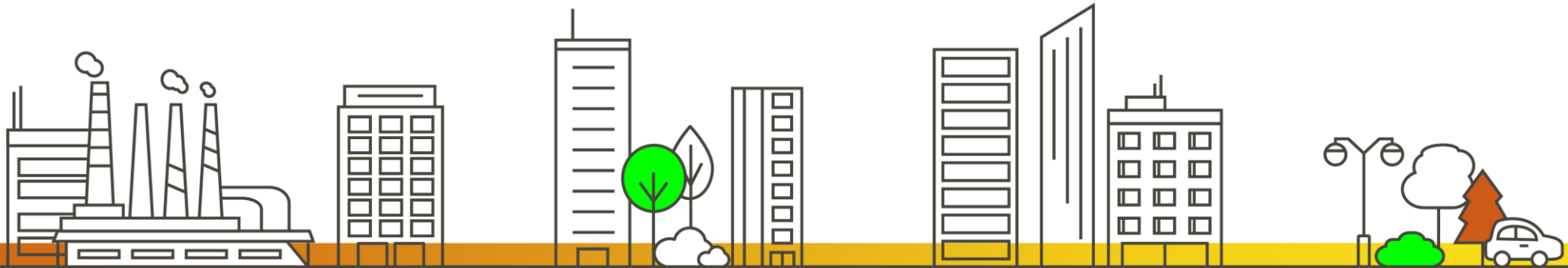
# Background

- The ESO have been developing this Pricing Proposal with close feedback and steer from Ofgem.

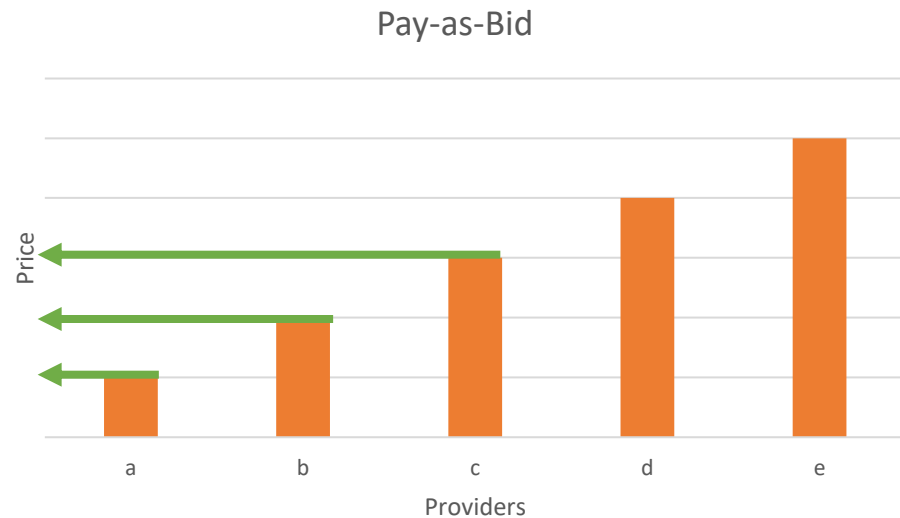
## How have we done this?

- Bilateral Monthly meetings
- Draft sharing
- Presenting at JESG
- We plan to engage with interested parties – please reach out

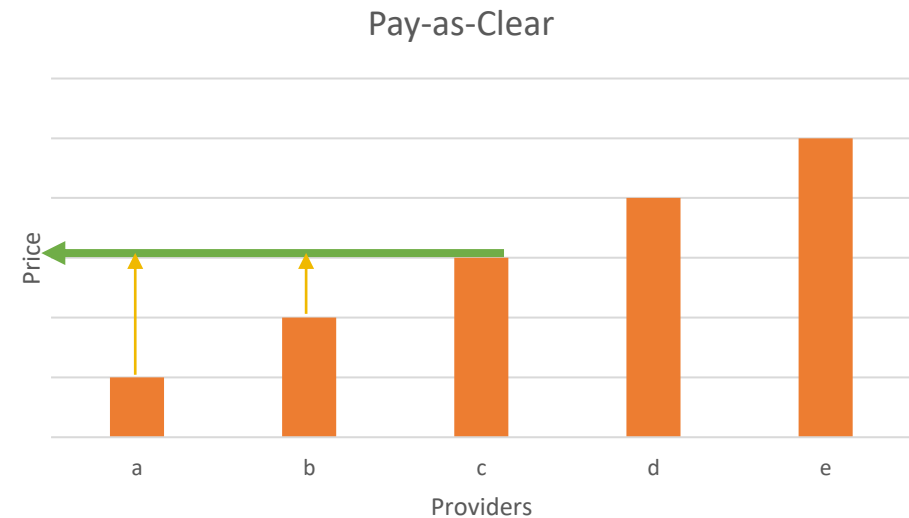
Question – How well do you understand why a pricing proposal is needed?



# What is the difference between Pay-as-Bid and Pay-as-Cleared?



Participants receive the price that they provide to the market. The product is purchased in the “merit order” in that the cheapest (compliant) products are taken first. Each party receives their own price, so the total cost is the sum of each party’s volume multiplied by their bid price.



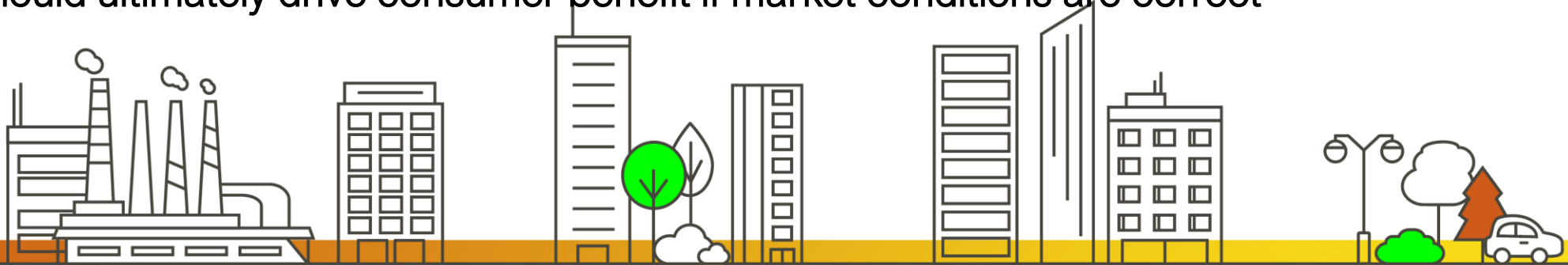
All participants receive the price of the most expensive item procured. The products are still purchased in merit order, but the most expensive item sets the price for all providers. The total cost is therefore the volume procured multiplied by the most expensive accepted product. All providers receive the market’s marginal cost.

# What are the benefits of Pay as Cleared?

Theoretically, both payment mechanisms should produce comparable results; but:

- PaC should ensure providers operate close to Short Run Marginal Costs
- PaC encourages competitive bidding – PaB encourages participants to bid at the highest costs
- A pay-as-cleared market discovers the marginal cost of the balancing energy based on a merit order of individual short-run marginal costs and pays it to everyone.

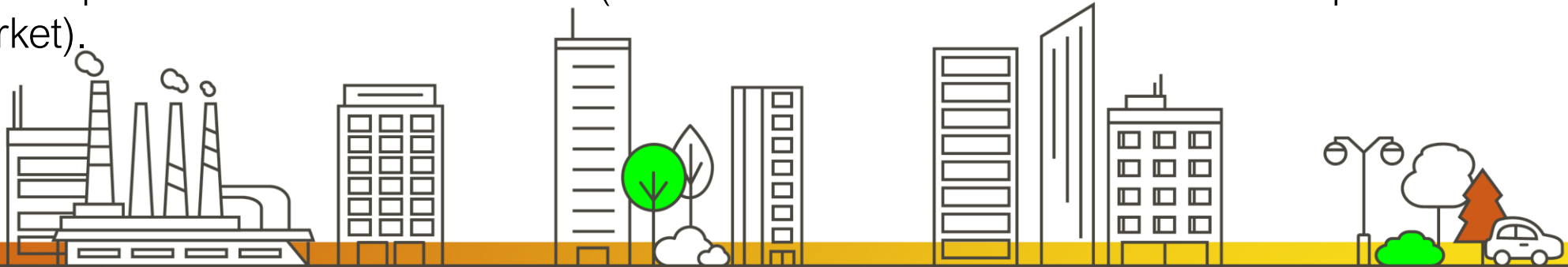
This should ultimately drive consumer benefit if market conditions are correct



# Pay as Cleared – when is it better?

Pay-as-Cleared only results in a better outcome if the following criteria are true:

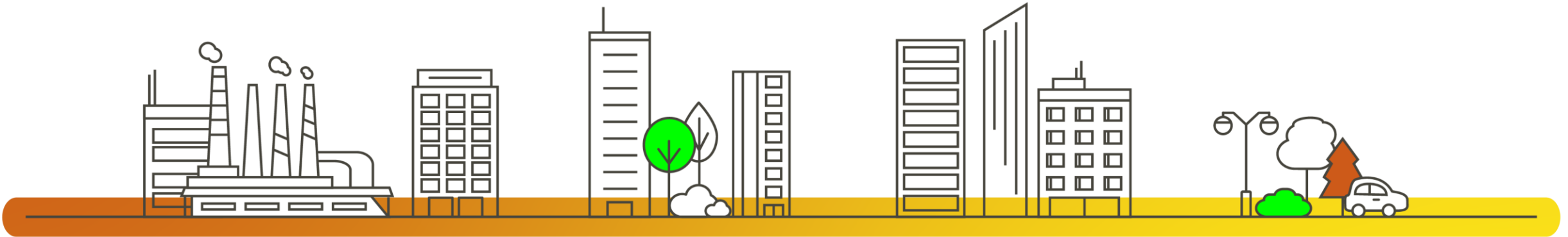
- the product is homogenous (the product is indistinguishable by consumers from other products offered).
- the market is competitive (no big players in the market who are able to distort prices).
- there is perfect information available (all in the market have the information required about the market).



# Pay as Bid vs Pay as Cleared

Questions:

- Which payment mechanism suits your organisation best?
- Detail any challenges for your organisation if Pay-as-Clear is implemented
- Do you have any data that supports this?



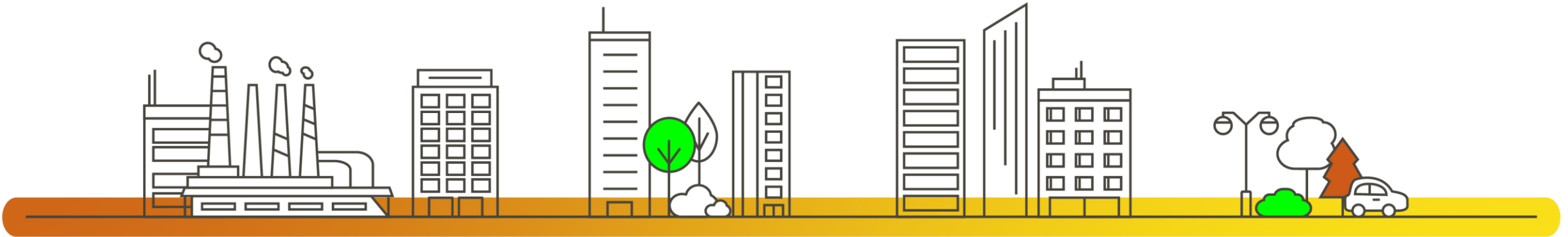
# Pay and Cleared – criteria

Criteria	Definition	Quantitative Measures
Homogenous	<ul style="list-style-type: none"> <li>The product cannot be distinguished from other products offered by different providers by the consumer.</li> </ul>	<ul style="list-style-type: none"> <li>Range of Technology types due to marginal pricing</li> <li>&gt;4 deemed as non-homogenous</li> <li>Prices submitted by technology types</li> </ul> <p>NB – Technology types can impact marginal prices</p>
Perfect Information	<ul style="list-style-type: none"> <li>All information for the market in which the product is available is correct, transparent and available to all parties.</li> </ul>	<ul style="list-style-type: none"> <li>Amount of information available to market prior to price being set (can include but not limited to volumetric information, timescales, operational impacts, prices of other participants)</li> </ul>
Competition	<ul style="list-style-type: none"> <li>The market in which the product is in has competition and is not distorted by a single or dominant participant.</li> </ul>	<p>Herfindahl-Hirschman Index</p> <ul style="list-style-type: none"> <li>Percentage of time that one unit/company/technology type (select where applicable) sets a marginal price based on modelling and projections</li> <li>If the market scores as per the index, it will be deemed as competitive.</li> </ul>

# Pay as Cleared – when is it better?

## Questions

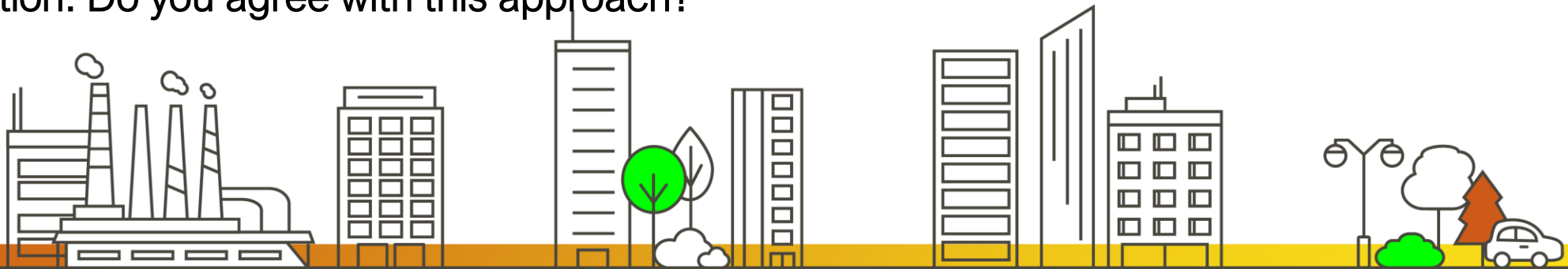
- Do you agree with the criteria?
- How many technology types result in homogeneity?



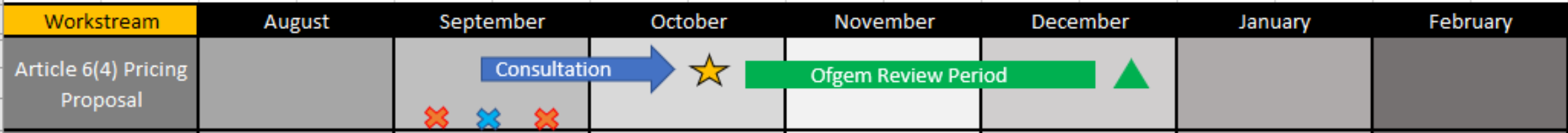
# Legacy Products

- It is proposed that legacy products which are currently are Pay as Bid will remain so until such products are amended or replaced.
- We are currently drafting the proposal to reflect this
- Reasoning – Efficiency, cost, and delay of new product development





Question: Do you agree with this approach?



# Draft Timelines



Question: Do you agree with the proposed timelines?

Key	Consultation		
	ESO Input		
	Ofgem Input		
	Progress Updates		
	Draft Sharing		
		Ofgem/ESO Interaction	
		Submission	
		Decision	
		Consultation related activity	



# AOB

Question: Do you have any general feedback or questions?

How likely are you to recommend this webinar to a colleague or friend (please give a score between 1 and 10)?

