Annex 1

GB Pricing Proposal Consultation

Table 1

Summary of responses and key themes from the consultation responses and NGESO comments. For responses provided on the official template we have only included the specific questions the provider responded to, all other questions should be assumed as "no comment" from the provider.

Respondent	***Response or Key Theme***	***NGESO Comments & Response***
Drax	**Q1. Do you agree with the scope of the pricing proposal? Why?** Yes, we agree with the proposed scope of this Pricing Proposal (PP). We also agree that capacity payments (i.e. Balancing Capacity) should be out of scope of this PP since Article 6(4) of Regulation (EU) 2019/9431 specifically refers to 'settlement of balancing energy'. We note, however, that there is some inconsistency in wording within the consultation documents. The text of the PP itself highlights that 'the Pricing Proposal defines the methodology to determine the pricing mechanism of Balancing Energy resulting from Frequency Restoration Reserves with manual activation (hereafter referred to as "mFRR"), Replacement Reserves (hereafter referred to as "RR") and Frequency Containment Reserves (FCR), also known as Specific balancing products.' However, the mapping exercise and a table with a list of all balancing products marks FCR products as 'out of scope' of this PP. We believe this refers to FCR products being out of scope of the Article 6(4) requirement, but not out of scope of the PP itself. This leads to unnecessary confusion and should be clarified.	NGESO thank you for taking the time to provide feedback and look forward to working with you in the future. Our initial interpretation was that FCR were out of scope of 6(4) for 2 main reasons. 1. There was no standard product for them to align to (unlike RR and FRR products), which means that the conditions for PAC to be more efficient are unlikely to be present, and there was no process for them to be deemed Specific as a result. 2. The original ACER PP also removed FCR products from the scope so aligning to this interpretation seemed sensible.

		During the course of the consultation, we had multiple sessions with stakeholders who provided a range of views on this. We have taken this feedback on board and come to the conclusion that FCR products should be within the scope of 6(4) for the below reasons: 1. FCR products are already compliant to the requirement. 2. Given the change in legislation from the Statutory Instruments, all GB balancing products are now Specific, and thus FCR products now come under the scope of 6(4). 3. When developing new balancing products (regardless of the type), we go through a process whereby the most efficient payment mechanism is explored. The PP provides a clear and transparent process for this. This has been amended in both the explanatory document, and Appendix B of the PP which contains the table of products. Thank you for highlighting this inconsistency.

	Q2. How would implementation of the pricing proposal impact your organisation and wider industry? Please provide any information which would support this, including potential costs/benefits, changes in wholesale prices, costs to industry parties or system costs. We do not envisage any material costs from the implementation of the pricing proposal as it is currently drafted. Given that most legacy products are likely to remain PAB, there is no significant impact on current industry arrangements. Therefore, we do not foresee any impacts on our internal system or wider industry costs. With regards to future product design and any necessary future reassessments of existing products, we expect a clear CBA analysis, including implementation costs, should the initial product assessment against the prescribed criteria show a positive case for moving to PAC.	Thank you for your response. Legacy products are likely to be phased out over time.
	Q3. Do you agree with the economic theory and market criteria outlined in the pricing proposal? Is there anything further for the ESO to consider? Yes, we largely agree with the proposed criteria and we welcome amendments made in response to stakeholder feedback. However, we would highlight the need for alignment in text of all the documents in the consultation suite, specifically with regards to the 'Full information' criteria. We note that Section 3.3 of the Pricing Proposal (General Principles) still refers to 'perfect' information rather than 'full' information.	Thank you for highlighting the discrepancy. The amendments have been made.
	Q4. Do you agree with the treatment of legacy products (retaining Pay as Bid as a payment mechanism)?	Thank you for letting us know your thoughts on legacy products. In terms of legacy

	Yes, we agree with the analysis and conclusions provided by the ESO demonstrating that PAB is more economically efficient for existing GB balancing products. We also acknowledge that the costs of converting existing systems to allow pay as-cleared could be significant and may not be in the best interest of consumers and market players. While we agree that existing products do not meet the prescribed criteria, we note that, given the scale of on-going market reforms, it is possible that market conditions and product design will change in future. Therefore, we are keen to understand whether and how legacy products will be reassessed against the criteria in response to any significant market reforms, such as potential changes arising from the current Balancing Market and Wholesale Market reviews. To that extent, it would be useful to see a clear explanation of what constitutes or triggers an amendment to the product as noted in the following statement: 'all legacy products will remain on a PAB Basis, until such time as they are amended or replaced'**.**	products, we envisage that many of these will be phased out over the coming years. Moving to PAC would result in large costs for system replacement for products that are likely to be replaced; this does not present an efficient use of time or money. The wording has been updated to make it clear that legacy products will not be subject to reassessment.
	Q5. Do you have any opinion on the treatment of BM BOAs? Is there anything further on this subject that you would like to see clarified? Given the likely complexity of splitting out services and having separate PAC and PAB pricing in BM BOAs, it seems to be more practical and proportionate to keep a single clearing mechanism for BM. We are not convinced the benefit of having two separate pricing approaches is sufficient to justify administrative resources and costs required for implementation.	We note this preference, however the only other respondent to this consultation had the opposite view. This decision will be revisited during any future Cost Benefit Analysis, for any product that meets the economic criteria for Marginal Pricing.

	Q6. Do you agree with the approach to new product development? Is there anything further that you would like to see included? We agree with the requirement for the ESO to perform an assessment against the prescribed criteria to determine whether a new product should be settled on a PAC basis.	Thank you for your response.
	Q7. Following new product development, what are your thoughts on the review cycle for new products? It is critical to strike the right balance between transparency and frequency of the reviews while maintaining consistent and efficient market.	Having considered this feedback, we see 3 years as a review period which strikes this balance, with an initial review within two years for a new product. This gives us time to collate data on the market. We have updated the PP accordingly.
	Q8. Do you agree with the exclusion of FCR products from the scope? Is there anything further for NGESO to consider? We support the rationale for excluding FCR products from the scope of CEP requirements, however, we are not able to comment on the legal basis for such decision. We believe that Ofgem and NG ESO's legal reviews should ensure that the proposed treatment of FCR products for the purposes of compliance with CEP is fully justified and well-evidenced.	Please refer to our answer to Q1.

	NO COMMENT ON Q9.	
RWE	**Q1. Do you agree with the scope of the pricing proposal? Why?** No as the scope section of the Pricing Proposal implies that FCR is in scope but the Explanatory Document states Nation Grid ESO believes FCR products do not fall into scope of article 6(4) We believe that the Pricing Proposal should cover all Balancing Products, including legacy products. The Criteria outlined in the Pricing Proposal for determining whether any new product would be more economically efficient settled as PAC should also be suitable for determining how best legacy and FCR products are most efficiently settled.	NGESO thank you for taking the time to provide feedback and look forward to working with you in the future. Our initial interpretation was that FCR were out of scope of 6(4) for 2 main reasons. 1. There was no standard product for them to align to (unlike RR and FRR products), which means that the conditions for PAC to be more efficient are unlikely to be present, and there was no process for them to be deemed Specific as a result. 2. The original ACER PP also removed FCR products from the scope so aligning to this interpretation seemed sensible. During the course of the consultation, we had multiple sessions with stakeholders who provided a range of views on this. We have taken this feedback on board and come to the conclusion that FCR products should be

		within the scope of 6(4) for the below reasons: 1. FCR products are already compliant to the requirement. 2. Given the change in legislation from the Statutory Instruments, all GB balancing products are now Specific, and thus FCR products now come under the scope of 6(4). 3. When developing new balancing products (regardless of the type), we go through a process whereby the most efficient payment mechanism is explored. The PP provides a clear and transparent process for this. This has been amended in both the explanatory document, and Appendix B of the PP which contains the table of products. Thank you for highlighting this inconsistency. In terms of legacy products, we do not agree with this view. We have done studies into some legacy products, such as BM and STOR, which show that moving these products in current market conditions would not be

		economically efficient. We also would like to highlight that we plan to phase out and replace many of these legacy products in the coming years. Moving to PAC would result in large costs for system replacement for products that are likely to be replaced; this does not present an efficient use of time or money.
	Q2. How would implementation of the pricing proposal impact your organisation and wider industry? Please provide any information which would support this, including potential costs/benefits, changes in wholesale prices, costs to industry parties or system costs. The impact of implementation of the pricing proposal would currently be limited as there appears to be very limited products that would meet the Pay as Cleared Criteria	Thank you for your comments. These have been noted accordingly.
	Q3. Do you agree with the economic theory and market criteria outlined in the pricing proposal? Is there anything further for the ESO to consider? Our previous feedback has been incorporated into the Measures of determining if a product is Homogenous so we agree with that for Competition, can the Hefindahl-Hirschman Index be applied in this context? Whilst National Grid ESO have provided us of examples of the index being used by Ofgem this is always using Company as the way to determine market share. We cannot find anything to suggest that Company can be interchanged with Unit or Technology type.	Thank you for your feedback. We note your points on the HHI. We have amended the pricing proposal slightly to remove technology type from the HHI criterion, as we believe that the HHI better fits site/unit type, as these can be distinguished by differing prices, whereas technology type may encompass many different prices. This calculation can still be done at a site/unit level, as well as company. The PP gives the option for either Company or Site to be used. Given the reform currently underway, we

		would like to maintain the flexibility to use site and/or company. This will ensure we have the right tools available for different markets.
	Q4. Do you agree with the treatment of legacy products (retaining Pay as Bid as a payment mechanism)? No as the Explanatory Document suggests that an assessment of both the Balancing Mechanism and STOR has already taken place, so this could be undertake for the remaining In Scope- Legacy products. All the Legacy products could then be subject to a market assessment every [xx] years in line with all new products. National Grid ESO have explained that the reason behind this decision is due to resourcing but there could be a middle ground where remaining as PAB is justified as the products do not meet the PAC criteria rather than full Economic evaluations being carried out.	Thank you for letting us know your thoughts on legacy products. In terms of legacy products, we envisage that many of these will be phased out over the coming years. Moving to PAC would result in large costs for system replacement for products that are likely to be replaced; this does not present an efficient use of time, resource or money. As such these will not be assessed. It is a license condition that we balance the system in an efficient and economic manner. We will continue to do this with all products. We do not believe that it is efficient or economic to review the settlement mechanisms of legacy products when they are due to be phased out in
	Q5. Do you have any opinion on the treatment of BM BOAs? Is there anything further on this subject that you would like to see clarified? Yes, we believe that some BM BOAs will need to be settled as Pay As Cleared if they are the result of providing a reserve service for	We note this preference, however the only other respondent had the opposite view. This point could be considered during a CBA of any future reserve service which meets the three economic criteria.

	which Pay as Cleared has been determined to be the method of settlement. BM BOA's that are issued to deliver a specific Balancing Service could be issued as a separate type of BOA as TERRE instructions would have been. Settlement methodology for this was developed for the TERRE Implementation workstream. If a BOA is issued to deliver a certain reserve service then at the point this is issued the ESO will know the reason for the instruction so there should be no need for a later retagging process for these specific products. In the event that there is an error then this action could be unwound at the BM Bid/ Offer price (as was planned for TERRE in the event that RR instructions needed to be unwound) and the PAC price would not be impacted	This decision will be revisited during any future Cost Benefit Analysis, for any product that meets the economic criteria for Marginal Pricing.
	Q6. Do you agree with the approach to new product development? Is there anything further that you would like to see included? There is inconsistency between 2.2 which calls the criteria Full Information and 3.3 iii) which refers to perfect information We would like to see more transparency around the method that would be employed to calculate the CBA for Products that meet the PAC Criteria	The inconsistency has now been remedied. We would be interested to hear from you in regards to how we can improve transparency. The CBA process and methodology for each product will be made public through the Article 18 process. We will share details of products with all stakeholders prior to formal consultation process, as we do today.
	Q7. Following new product development, what are your thoughts on the review cycle for new products? The review cycle should include existing products and the review cycle should be no longer than 3 years.	We agree and plan on reviewing every 3 years, after the product undergoing an initial review within two years. The PP has been amended to reflect this, thanks for your feedback.

	Q8. Do you agree with the exclusion of FCR products from the scope? Is there anything further for NGESO to consider? No we don't agree as all services should be reviewed whether or not there is a legal obligation to do so on the basis that this Pricing Proposal is intended to determine the most efficient method of settling Balancing Products	Please refer to our answer to Q1
	Q9. Please provide any further comments pertaining to the Pricing Proposal here. Appendix A appears to have a typo in "Each new product that is put forwards but complete this assessment against the outlined criteria" Should but be must? We would like to see further detail on the assessment measures being used to assess alternative pricing methods. The assessment should also take into account longer term investment signals It is unclear how a "description of measures proposed to minimise the use of the Specific balancing product" forms part of an assessment to determine pricing methods?	Thanks for pointing this out. We have now corrected the section in question. We would be interested to hear what further measures you feel should be used. We have amended the explanatory document to highlight which alternative measures may be suitable as a result of your feedback, thank you. We have also included a process map as an annex to the PP. The wording from the 6(14) regulation, which ensures that we are explicit on the specific circumstances when a product would be used. This ensures that we use the product only when absolutely necessary to the safe

		and economic operation of the system. This ensures that if an Alternative Payment Mechanism is used, that the requirements of a derogation are included with the justification for using a mechanism that is not Marginal Pricing.