

Balancing Actions above the Value of Lost Load (VoLL)

Purpose

This document illustrates ESO policy in the event that required system and/ or energy actions exceed the cost of Value of Lost Load (VoLL) as established under the Balancing and Settlement Code.

Context

Due to the ongoing situation in Europe and tighter operating conditions in GB, the ESO is having to take more expensive actions to manage the system. Recently the ESO has had to accept actions that are larger than the cost of VoLL as stipulated within the Balancing and Settlement Code (BSC) leading to queries from stakeholders as to whether Demand Control should be utilised instead of taking actions at these prices.

VoLL Background and ESO actions

1. The BSC provides for a VoLL at £6k/MWh. This was established in cashout arrangements and based on analysis from LSE of a true VoLL of £17.5k/MWh. Ofgem adjusted the LSE figure to allow for GB market conditions, participant protections and the development of the Capacity Market resulting in what would essentially be described as an “administrative VoLL”.¹
2. On 20 July 2022, due to significant constraints in the south-east of GB, trades on interconnectors were accepted up to £9,725/MWh. The ESO spent around £69m on trades on this day of which £12.07m was for volume above the administrative VoLL. This is the first occasion that the ESO has taken actions above the administrative VoLL.
3. The ESO believes that it is correct for it to preserve demand by taking every available commercial and market action (including accepting costs above the administered VoLL) as well as using emergency actions where necessary. Disconnection of demand will be a last resort emergency measure taken only when all other options are exhausted.
4. Through our Market Monitoring obligations, the ESO will continue to assess the actions of market participants and will highlight any potentially adverse market behaviour to the Authority.
5. Given the length of time since VoLL was last considered the ESO supports a considered review of what the administrative value of VoLL should be and what the value of scarcity to consumers is. This may be best picked up and considered in the context of wider market design and the consideration of the benefits of any reform.

¹ Further information on the development of the BSC arrangements and Ofgem’s assessment of the Value of Lost Load can be found on their website <https://www.ofgem.gov.uk/publications/electricity-balancing-significant-code-review-final-policy-decision>