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New Calculation Method for UK Delivery Risk Parameter applicable in EPEX trading systems and DCP Limit Calculation

Summary

As of 1 August 2023, ECC will introduce a new method for the calculation of the price independent delivery risk parameter for the EPEX UK spot market that is applied within the trading limit exposure calculation on M7 (Continuous Market) and ETS (Auction Market) as well as within the DCP limit calculation.

The change will lead to more regular (monthly) updates of the following parameters:

- UK Price Independent Delivery Risk Parameter in GBP for Continuous Trading in M7 (Sell only)
- UK Price Independent Delivery Risk Parameter in GBP for Auction Trading in ETS (Sell only)
- UK Price Independent Delivery Risk Parameter in GBP for DCP limit calculation (Sell only)

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New Calculation Method

The UK Price Independent Delivery Risk Parameters applied in the pre-trading limit systems of EPEX SPOT as well as in the DCP limit calculation at ECC aim to cover the risk that occurs, when a trading participant sold energy at the market, but the TSO (Elexon) rejects or refuses to accept the nomination (also called "delivery risk"). In this case, ECC has to buy that outstanding amount of energy at imbalance prices published by the TSO.

As of 1 August 2023, a new method for the calculation of the price independent delivery risk parameters for the EPEX UK spot market will be applied. ECC will publish a relative parameter ("$UK\ imbalance\ cost\ ratio$") that covers the relationship between the front month contract one week prior to the beginning of the month and the actual imbalance costs. This parameter is calibrated and reviewed by ECC on a quarterly basis. The current value is 1.7.

On a monthly basis the UK imbalance cost relation will be used to determine and update the applicable UK Price Independent Delivery Risk Parameter. Hereby, ECC will use the available EEX settlement price of the UK Power Base Front Month Product (EEX GB Base Monthly Power Future – EEX Product Code: FUBM) setting

$$UK\ Price\ Independent\ Delivery\ Risk\ Parameter\ (ETS\ \&\ DCP)$$

$$:= Roundup\ (UK\ imbalance\ cost\ ratio * UK\ Monthly\ Future\ Price, 0)$$

This obtained parameter will be applied in the EPEX auction trading limit system ETS and within the DCP Limit Calculation at ECC. In the EPEX continuous trading limit system M7, an additional relative parameter ("$UK\ intraday\ trading\ offset$") is applied on top as most of the contracts traded are close to delivery and the underlying risk resolves during each limit period. This parameter is calibrated and reviewed by ECC on a quarterly basis. The current value is 0.6.

New UK Price Independent Delivery Risk Parameter values will be communicated one week prior to the first business day of each new month. In the event of extreme market movements additional adjustments during a month might take place.

All parameters will be part of the ECC Risk Parameter File available on the ECC website. The relative parameters enable members in advance to monitor how the UK Price Independent Delivery Risk Parameters in the trading limit systems will develop.

Clearing Members and DCPs are asked to check whether defined trading limits and deposited collaterals for relevant auctions (EPEX_AUCTION_GBP) and continuous trading (EPEX_CONTINUOUS_GBP) are set sufficiently to cover a possible change in limit utilisation.

Example for the parameter calculation:

Input (currently valid relative parameters):

- $UK\ imbalance\ cost\ ratio = 1.7$
- $UK intraday\ trading\ offset = 0.6$

The parameter valid on the first business day of August (1 August 2023) at 16:00 CET, will be determined one week prior, on 25 July 2023, using the last available settlement price of the EEX GB Power Future Base Month contract with delivery month August 2023. Example: Let's assume today we have the 25 July 2023 and let's assume the settlement price of the previous business day is 80 GBP/MWh. The resulting parameters would be

Parameter	Theoretical Example
UK Price Independent Delivery Risk Parameter in GBP for Continuous Trading in M7 (Sell only)	= 80 * 1.7 * 0.6 = 82 GBP/MWh
UK Price Independent Delivery Risk Parameter in GBP for Auction Trading in ETS (Sell only)	= 80 * 1.7 = 136 GBP/MWh
UK Price Independent Delivery Risk Parameter in GBP for DCP limit calculation (Sell only)	= 80 * 1.7 = 136 GBP/MWh

The new values will be communicated on 25 July 2023 to be able to adjust collateral and/or limits before the new values will be applied.