

nationalgrid



## Our approach to pricing

National Grid Electricity Distribution (NGED) recognise the importance of making the provision of flexibility an investable proposition, as well as the wider commitment to ensure the costs of flexibility remain competitive and economic for our wider customer base.

Our flexibility contracts will be awarded on a minimum one year basis, longer contracts up to four years may also be awarded. Contract extension into subsequent years, may be applicable in zones where we continue to have flexibility requirements and the price awarded within them remains in line with market expectations.

Previous procurements of flexibility have been settled on a fixed price, which has provided good stability for nurturing early markets. However, we recognise when the market becomes more competitive, an arbitrated price may not offer best value.

From 2019 onwards, we implemented a new pricing strategy, which has three distinct phases:



- Where the procurement process finds there is not a sufficient amount of flexibility to provide a competitive market, then we will continue to use a fixed price in that zone.
- This will be set at around £300/MWh for the contract.

## Phase 2 Pay-as-Clear

- Where there is sufficient competition within flexibility, the procurement process will derive a <u>clearing price</u> for the zone to be used in the contract.
- This will be based on the highest price submitted by the group of lowest priced participants that can meet the full amount of system needs, including redundancy.

## Phase 3 Full Market

- As the liquidity in distribution flexibility markets improves and our visibility, procurement, dispatch and settlement systems mature, we will shorten the length of the window for which the contract price applies to.
- This will be a progression towards close to real-time market operation.

