



## Pricing Strategy



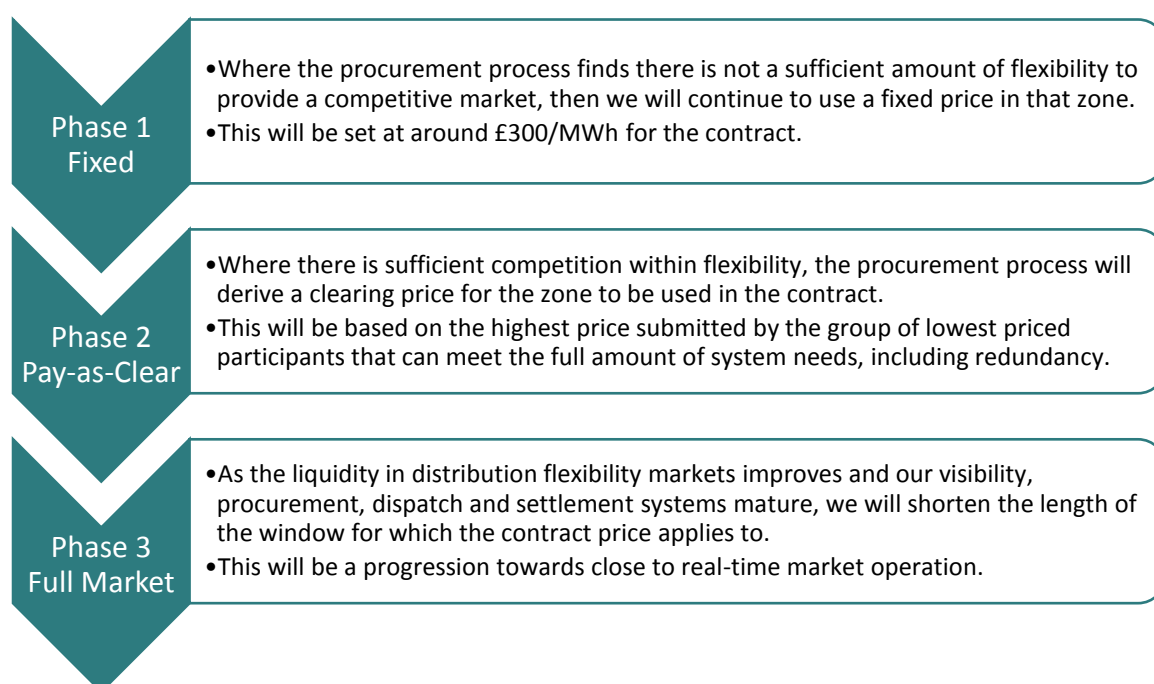
## Pricing Strategy v0.1

WPD recognises 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 yearly basis, but naturally forms a rolling contract following that initial period. We anticipate that the majority of these contracts will continue on an enduring basis as long as the price of flexibility within them remains in line with market expectations.

Previous procurements of Flexible Power have been settled on a fixed price, which has provided good stability for nurturing early markets. However, an arbitrated price may not be best value in a competitive market.

From 2019 onwards, WPD will implement a new pricing strategy, which we see as having three distinct phases:



During the procurement process for the first half of 2019, we expect most zones to continue on a fixed price basis, however where there is sufficient competition, we will move towards the Phase 2 stage. During the procurement process, the flexibility provider can submit a preferred price, set at its own level. This preferred price will be a total price for a MWh of both arming/availability and utilisation. The same percentage splits used in the fixed pricing of Phase 1 will be used within Phase 2 to relate the preferred price to arming/availability and utilisation values, namely Dynamic; availability 1.6%, utilisation 98.4% and for Secure; arming 41.5% and utilisation 58.5%. Flexibility zones meeting the competitive market test will move away from using the fixed price in Phase 1 and instead will be settled on a pay-as-clear price based on the highest price submitted within the lowest priced group of participants meeting the competitive market test.

Phase 3 is intended to be reached in the future, once the market and accompanying technology platforms have reached maturity. WPD will continue to develop its visibility, procurement, dispatch and settlement platforms to achieve this.

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### **Competitive Market Test**

WPD sees a competitive market as one which has an oversupply in the provision of flexibility compared to the required system needs and that there is sufficient flexibility provision that removal of two participants still enables the required amount of flexibility to be delivered. A competitive market would also see a single flexibility provider supplying no more than 50% of the energy required in total by the system.