

# Why Did Cash Out Pricing Soar?

March 9, 2020

On March 5, 2020, energy cash out pricing reaching levels that had not seen since 2015.

System Pricing in the 6pm to 7pm window (periods 37 and 38) reaching £2,242/MWh and £1,708/MWh – almost £2,000/MWh above where the Day-Ahead (DA) and Within-Day (WD) power markets had valued the settlement periods.

“Lots of people are asking the question, what the hell happened?” said Charlie Ward, Director of Renewables and PPAs at New Stream Renewables, a specialist consulting and support services group operating across renewable energy markets. “Our clients are obviously trying to understand what caused this short price spike”.

Whilst a simple answer would be to say that demand just outstripped supply, there is perhaps a more complex issue here.

New Stream systems showed a “Net Imbalance Volume” of around 475 MWh short, which isn’t a significant level. On the supply side, generation capacity was similar to recent days with no big changes to plant availability and demand was around the seasonal normal.

“I think it’s too simplistic to say that the short system alone created the issue and spike in prices” said Ward. “My view is that the spike and high imbalance pricing was a result of the Reserve Scarcity Pricing (RSP) mechanism. This is the methodology that the system operator uses to try to correctly price-in the value of demand disconnection from the grid.”

The RSP is measured as the Value of Lost Load (VoLL) x Loss of Load Probability (LoLP). The VoLL is set at £6,000/MWh.

“If we look at LoLP in period 37, this was showing a figure of around 37%, which resulted in cash out pricing of up to £2,250/MWh. On the supply side, we had most of the large units running so there was little margin or flexibility to manage the short system.”

“STOR units were then called on and system pricing was set relative to the RSP. LoLP is a transparent figure and is forecast and published so this should act as a price signal, but the market did not price in the RSP event. We only saw on the day market prices of around £350/MWh, which is well below the VoLL and imbalance pricing.”

RSP was only introduced in 2015. In 2018, the VoLL was increased from £3,000/MWh to £6,000/MWh and the system moved from Price Average Reference (PAR) volume of 50 MWh to 1 MWh threshold.



**Charlie Ward,**  
Head of Renewables

“At the time, there was lots of discussion about making imbalance pricing more sensitive but this is the first time we have seen this play out in terms of a price spike.

I think we are going to see more of this as older plants come off line, increasing the influence of intermittent renewables and lack of flexibility in the system. I also think that we are likely to see traders reacting differently and benchmarking upside price risk to LoLP.”

To get more information that can help you strengthen your position speak to the team at New Stream Renewables, contact

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