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Electricity generation and/or
supply license holders,
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interested parties

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Dear Colleague,

Publication of background data supporting Ofgem's 'Electricity Balancing Significant Code Review: Draft Policy Decision Impact Assessment'

Ofgem is today publishing some of the data which was used in the production of the Electricity Balancing Significant Code Review (EBSCR) Draft Policy Decision Impact Assessment (IA)¹. This letter accompanies the publication of the data.

Stakeholders requested the publication of this data to further understand the background to the analysis undertaken in the IA. We consider that publishing this data now will help support stakeholders' responses to the Draft Policy Decision consultation under the EBSCR which closes on 22 October 2013.

The data we are publishing are series of cash-out prices calculated assuming the implementation of the five proposed policy packages considered in the IA. A 'Do Nothing' price series is also included. The data can be found on the EBSCR page of Ofgem's website².

Background

We have held long-standing concerns with the balancing arrangements in the GB electricity wholesale market. In August 2012, we launched the EBSCR with the publication of our Initial Consultation³ document to explore these issues further and consider whether improvements could be made. Following consultation and extensive stakeholder engagement, we published our Draft Policy Decision for consultation. Alongside this document, we also published an IA which aims to identify and assess the key impacts of our policy proposals and set out the evidence underpinning our Draft Policy Decision.

Our approach to assessing the likely impacts of our policy proposals was based on both quantitative and qualitative analysis. We developed two strands of quantitative analysis to investigate the key impacts: Historical Analysis of what the impacts could have been over the period 2010-12, and Forward Modelling which illustrates potential impacts in the future, with the second (and larger) piece of analysis capturing potential behaviour change in

¹ Ofgem (2013): 'Electricity Balancing Significant Code Review: Draft Policy Decision Impact Assessment'; <https://www.ofgem.gov.uk/publications-and-updates/electricity-balancing-significant-code-review-draft-policy-decision-impact-assessment>

² <https://www.ofgem.gov.uk/electricity/wholesale-market/market-efficiency-review-and-reform/electricity-balancing-significant-code-review>

³ Ofgem (2012): 'Electricity Balancing Significant Code Review (SCR) – Initial Consultation'; <https://www.ofgem.gov.uk/publications-and-updates/electricity-balancing-significant-code-review-initial-consultation?docid=11&refer=Markets/WhlMkts/CompandEff/electricity-balancing-scr>

response to our policy proposals. We took this approach to try and maximise transparency and aid understanding of the analysis.

The data we are publishing supported part of our backward-looking Historical Analysis. This data contains series of cash-out prices calculated assuming the implementation of the five proposed policy packages considered in the IA. These prices were also used to assess changes in parties' imbalance charges over the period 2010 to 2012. Summary analysis of the impacts on prices and imbalance charges developed using this data were presented in the IA.

Data methodology

The prices series supporting the Historical Analysis were developed using actual data around individual party and overall net imbalance volumes and balancing actions taken by the System Operator (SO) over the three calendar years from January 2010 to December 2012. This data was provided by Elexon and National Grid Electricity Transmission (NGET). We took the data from this period and applied the changes to the price calculation proposed under the different policy packages considered in the IA. We used actual out-turn cash-out prices as our Do Nothing counterfactual where no changes were made to the price calculation.

It is important to note that in constructing this analysis, only the price calculation changes under the different packages. We assumed no change to the current flagging and tagging processes between the Do Nothing scenario and the policy packages. In addition, the same data around the volumes of imbalances and actions taken by the SO to balance were used across the packages and Do Nothing scenarios. As a consequence the Historical Analysis does not capture any potential impact of changing cash-out prices on the balancing behaviour of parties (however the Forward Modelling analysis presented in the IA does attempt to capture potential changes in parties' behaviour). We made this assumption to maintain the transparency and simplicity of the Historical Analysis. This assumption limits the conclusions we can draw from the Historical Analysis as in practice we would expect behavioural changes to occur in response to changing price signals.

For further detail on the policy packages, the methodology used to assess the price impacts of the packages, and how this data was used in producing the IA, please refer to Section 3 of the 'Electricity Balancing Significant Code Review: Draft Policy Decision Impact Assessment' document.

Purpose of publication

This information has been made available for the purpose of providing further background to the IA. The prices were calculated by Elexon using data from Elexon and NGET. Ofgem made a number of adjustments to the data on which prices were calculated to apply the proposed policy changes; in particular these changes assigned a price to uncosted demand control actions over the period and applied the Reserve Scarcity Pricing function to Short-Term Operating Reserve actions taken to balance the system. Any parties using this data should not rely on the information provided for any other purpose than to understand the background to the IA.

Questions

Any questions regarding the data should be submitted to the EBSCR inbox (EBSCR@ofgem.gov.uk).

Yours sincerely,

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