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for energy consumers

Electricity generation and/or
supply license holders,
consumers and their
representatives, and other
interested parties

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Dear Colleague,

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

Ofgem is today publishing further 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.

On 30 August 2013, Ofgem published cash-out price data supporting the Historical Analysis, at the request of stakeholders, to allow them to further understand the background to the analysis undertaken in the IA. Stakeholders then requested the publication of Residual Cashflow Reallocation Cashflow (RCRC) data, which is contained in the spreadsheet accompanying this letter. We consider that this subsequent publication of data will help support stakeholders' responses to the Draft Policy Decision consultation under the EBSCR which closes on 22 October 2013 and as such would promote the interests of electricity consumers.

The RCRC data was calculated assuming the implementation of the five proposed policy packages considered in the IA. A 'Do Nothing' series is also included. The data can be found under the 'Subsidiary documents' section on the IA page of Ofgem's website².

Background

We have held long-standing concerns with the balancing arrangements in the Great Britain 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

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/publications-and-updates/electricity-balancing-significant-code-review-draft-policy-decision-impact-assessment>

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>

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. The second (and larger) piece of analysis captures potential behavioural changes in response to our policy proposals.

The data we are publishing supported part of our backward-looking Historical Analysis. This data contains simulations of RCRC had the five proposed policy packages considered in the IA been implemented.

Data methodology

The RCRC series supporting the Historical Analysis was calculated by Ofgem using cash-out price data, which itself was calculated by Elexon using data from Elexon and National Grid Electricity Transmission (NGET), published on 30 August 2013 and can be found on the IA page of Ofgem's website under 'Subsidiary documents⁴,' along with Residual Cashflow Reallocation Proportion (RCRP) and energy volumes data, which was provided by Elexon. We used observed RCRC data as our 'Do Nothing' counterfactual, where no changes were made to the price calculation and therefore RCRC is unchanged.

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 incorporates the effect of potential changes in parties' behaviour). Although in practice we would expect behavioural changes to occur in response to changing price signals, we made this assumption to ensure transparency and simplicity of the Historical Analysis

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' document¹.

Purpose of publication and use of data

This information has been made available for the purpose of providing further background to the IA and thereby informing stakeholder responses to the Draft Policy Decision consultation. 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,

Emma Kelso
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⁴ <https://www.ofgem.gov.uk/publications-and-updates/electricity-balancing-significant-code-review-draft-policy-decision-impact-assessment>