



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

Promoting choice and value for all gas and electricity customers

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Dear Colleague,

Publication of background data supporting Ofgem's 'P217A Preliminary Analysis'

Ofgem is today publishing some of the data which was used in its preliminary analysis of the BSC Modification P217A. This letter accompanies the publication of the data.

This publication was requested by stakeholders as part of the background analysis relating to the Initial Consultation under the Electricity Balancing Significant Code Review (SCR). The Initial Consultation period closes on 24 October 2012.

The data we are publishing contains several series of cash-out prices produced under different levels of Price Average Reference (PAR). The data can be found on the Electricity Balancing SCR page of Ofgem's website¹.

Background

Ofgem launched its electricity balancing SCR at the start of August 2012 with the publication of its Initial Consultation². The consultation period closes on 24 October 2012. Alongside the launch of the SCR, Ofgem published preliminary analysis of the last modification to the methodology for the calculation of cash-out prices; BSC Modification P217A³.

Under the current arrangements, the cash-out price is calculated as a partial volume weighted average of the actions taken by the System Operator (SO) to balance the electricity system in a given settlement period. The cash-out price is currently based on the most expensive 500MWh of actions taken (PAR volume), after flagging and tagging criteria have been applied.

Part of the preliminary analysis considered the impact on cash-out prices of reducing the level of PAR. Following feedback from stakeholders over the course of the Initial Consultation period, Ofgem have decided to publish some of the data underlying this preliminary analysis to assist stakeholders in understanding the preliminary analysis.

¹ www.ofgem.gov.uk/Markets/WhIMkts/CompanEff/electricity-balancing-scr/Pages/index.aspx

² Ofgem (2012): 'Electricity Balancing Significant Code Review (SCR) - Initial Consultation'; <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=11&refer=Markets/WhIMkts/CompanEff/electricity-balancing-scr>

³ Ofgem (2012): 'Electricity Balancing Significant Code Review: P217A Preliminary Analysis'; www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=12&refer=Markets/WhIMkts/CompanEff/electricity-balancing-scr

The data published are series' of cash-out prices calculated using different levels of PAR. The price series' contain data for 'live' cash-out prices (where the level of PAR is 500MWh), and cash-out prices under PAR volumes of 250MWh, 100MWh and 1MWh.

Data, counterfactual and assessment methodology

The preliminary analysis is based on data and analysis around balancing actions and cash-out prices provided by Elexon and NGET. The period of data and analysis covers a two year period since P217A was implemented: from the start of April 2010 to end of March 2012. Modification P217A was implemented in November 2009, but this period was chosen such that any seasonal effects were accounted for by assessing the data over two calendar years.

In the production of the alternative PAR scenarios, the same data around the volumes of imbalances and actions taken by the SO to balance the system were used as under the live scenario. In addition, the same flagging and tagging process under the current arrangements is applied to these alternative PAR scenarios, such that they are consistent with the live scenario. These alternatives are then compared to the live scenario in the preliminary analysis to analyse the price impacts.

The alternative PAR scenarios do not capture any impact of changing cash-out prices on the incentives to balance, and hence on balancing behaviour and imbalance volumes. The volumes of imbalance used are the same across the live and alternative PAR scenarios. This could limit the conclusions that can be drawn from the data somewhat as some behavioural effects could occur in response to different price calculations. For example, if cash-out prices were sharper, parties may make additional effort to reduce or avoid imbalances.

For further detail on the methodology underpinning this data, and how this was used in the P217A Preliminary Analysis, please refer to Section 2 of the P217A Preliminary Analysis document.

Further Information

This information has been made available for the purpose of providing additional background behind the P217A Preliminary Analysis. This data was produced by, and is owned by, Elexon. Any parties using this data should not rely on the information provided for any other purpose than to understand the background to the P217A Preliminary Analysis.

Questions

Any questions regarding the data should be submitted to the GB Markets inbox (gb.markets@ofgem.gov.uk).

Yours sincerely,

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