



Making a positive difference
for energy consumers

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Dear Mark

Ofgem decision on the derogation request from the Balancing and Settlement Code Company for paragraphs 4 and 5 of Article 55 of COMMISSION REGULATION (EU) 2017/2195 establishing a guideline on electricity balancing

I am writing to inform you of our¹ decision to reject the Balancing and Settlement Code Company's (BSCCo) request for a derogation from paragraphs 4 and 5 of Article 55 of COMMISSION REGULATION (EU) 2017/2195 establishing a guideline on electricity balancing (EBGL) received by us on 18 December 2017.

We understand that the analysis performed by the BSCCo suggested that the current arrangements in GB are compliant with the requirements under Article 55 in virtually all settlement periods. We also understand that the current view of the workgroup set up under the Balancing and Settlement Code (BSC) for modification P360 is that the processes in GB for separating energy and system actions is fit for purpose and compliant with Article 55. Our decision to reject the derogation request is based on the lack of sufficient evidence to support the BSCCo's claim that the current imbalance calculation in GB does not meet the thresholds set out in EBGL.

Background

On 18 December 2017, BEIS assigned the obligation under paragraphs 4 and 5 of Article 55 (among other articles) to the BSCCo pursuant to its power under paragraph 4 of Article 13 of EBGL.²

Article 62 allows for a TSO (or an assigned party pursuant to paragraph 5 of Article 13) to request a derogation from the provisions in Article 55 and sets out what information must be included in any derogation request. Article 62 also sets out the factors that National Regulatory Authorities need to consider when assessing a derogation request.

On 18 December 2017, you submitted a derogation request from the requirements under paragraphs 4 and 5 of Article 55:

- Paragraph 4 of Article 55 requires the imbalance price for negative imbalance not to be less than the weighted average price for positive activated balancing energy from frequency restoration reserves and replacement reserves, or in the event that no activation of balancing energy in either direction has occurred during the imbalance

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² <https://www.elexon.co.uk/wp-content/uploads/2017/12/BEIS-Notice-of-assignment-for-Implementation-of-the-Electricity-Balancing-Guideline-18Dec2017-.pdf>

settlement period, the value of the avoided activation of balancing energy from frequency restoration reserves or replacement reserves.

- Paragraph 5, conversely, has the opposite requirement, i.e. the imbalance price for positive imbalance not to be greater than the weighted average price for negative activated balancing energy or the value of the avoided activation of balancing energy.

In your submission, you presented evidence as required under Article 62 as well as additional information on the factors that the Authority must consider when deciding on this derogation request. Following on from your initial submission, you also sent us a spreadsheet analysis of the six settlement periods in question and your views on how your calculations took the correct interpretation of the BSC. We have also been in contact with your team, and on 13 March 2018 they confirmed that there was no additional evidence that could be provided in support of this request.

The Authority’s Decision

Having considered the different factors required under Article 62, we have decided to reject the derogation requested by the BSCCo.

The BSCCo provided analysis of the GB imbalance settlement arrangements which led to the BSCCo deeming that the arrangements in breach of the requirements under Article 55. Overall, we consider that this analysis did not accurately reflect the GB arrangements for the six allegedly non-compliant settlement periods, in particular regarding the Authority’s decision under P217A modification.³ In particular, the BSCCo has not provided sufficient evidence to explain why the analysis removed actions relating to positive and negative activated balancing energy from frequency restoration reserves and replacement reserves from the calculation of the weighted average price. Such actions are deemed balancing energy under the BSC. Once these actions are included in the calculation, the arrangements are compliant with the requirements under Article 55.

Table 1 below summarises the BSCCo’s views and the Authority’s assessment on the different factors as required under Article 62. Those factors must be considered by the National Regulatory Authority when assessing a derogation request.

Table 1: Summary of BSCCo’s views and Authority views on the requirements under Article 62

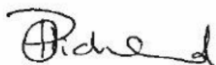
EBGL requirement	BSCCo’s view	Authority’s view
Difficulties to implement paragraph 4 and 5 of Article 55	Amendment of the BSC processes require significant investment in both time and money and would not guarantee compliance by the time article enters into effect.	Not sufficient evidence that the BSC is non-compliant with Article 55.
Risks and implications in terms of operational security	No impact of derogation on operational security.	No impact of derogation on operational security.
Actions taken to facilitate the implementation of the concerned provisions	Most efficient process is to consider the introduction of amendments due to articles 55 and 52 simultaneously, if the latter requires any changes in GB.	Plan to ensure compliance is achievable. However, there is not sufficient evidence that such an amendment is necessary for compliance.

³ Available at <https://www.elexon.co.uk/mod-proposal/p217-revised-tagging-process-and-calculation-of-cash-out-prices/>

Impacts of non-implementation of the concerned provision or provisions, in terms of non-discrimination and competition with other European market participants, in particular as regards demand response and renewable energy sources	No significant impact because: <ul style="list-style-type: none"> • Does not prevent harmonisation under Article 52; • No discrimination within the BSC by classes of party in the market • Only infrequent impact on imbalance settlement price. 	Not sufficient evidence to demonstrate non-compliance and, as a result, any discrimination arising from it.
Impact on overall economic efficiency and smart grid infrastructure	The submission, notes the low materiality and the high cost of making changes to the arrangements at this stage.	Not significant evidence that a change is needed. As a result, unclear on how any cost incurred to make the change would be economic and efficient.
Impact on other scheduling areas and overall consequences on the European market integration process	Do not see the implementation of Article 55 as harmonisation of the European markets, and, as a result, that it does not have a significant consequence on the European market integration process.	It is our view that Article 55 leads to some harmonisation of the European imbalance settlement price. However, there is no evidence that the current GB arrangements are not in line with this harmonisation, and, therefore there is no evidence that there is any negative consequence in any scheduling area of the European market.

If you or your team have any question about this decision, please contact Leonardo Costa at Leonardo.Costa@ofgem.gov.uk.

Yours Sincerely



Philippa Pickford
Deputy Director, Energy Systems Transition
Signed on behalf of the Authority and authorised for that purpose