

All interested parties,
stakeholders in GB and beyond,
and other regulatory bodies

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Dear colleagues,

Decision to grant an exemption to applying a 15 minute Imbalance Settlement Period in the GB synchronous area

This letter sets out our decision to grant, at our own initiative, an exemption from the requirement to apply a 15 minute imbalance settlement period (ISP) in the synchronous area Great Britain (GB), in accordance with Article 53 of the Regulation (EU) 2017/2195 (the EBGL Regulation)¹ and Article 8(4) of the Regulation (EU) 2019/943 (the Electricity Regulation).² We³ also summarise the findings of the Cost Benefit Analysis (CBA) that we completed to support this decision⁴ and outline the necessary next steps that must be taken following publication.

Background

The Electricity Regulation defines the ISP as the time unit for which the imbalance of the balance responsible parties is calculated.⁵ In the GB synchronous area, the ISP is currently set at 30 minutes.

¹ Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on Electricity Balancing, available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2195>

² Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity, available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0943>

³ 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.

⁴ See subsidiary document

⁵ See Article 2(15) of the Electricity Regulation.

In accordance with Article 8(4) of the Electricity Regulation and Article 53 of the EBGL Regulation, all TSOs shall apply an ISP of 15 minutes in all scheduling areas. This obligation applies as from the end of the year 2020.⁶ There is nevertheless a possibility for Ofgem⁷ to grant an exemption from this requirement after performing, in cooperation with the Agency for the Cooperation of Energy Regulators (ACER), a cost-benefit analysis (CBA) concerning the harmonisation of the ISP within and between synchronous areas.

CBA analysis

Frontier Economics completed the original ENTSO-E CBA in 2016⁸ that was used to support the chosen ISP of 15 minutes in the EBGL Regulation. The results of this CBA showed that a move to a 15 minute ISP would create significant economic detriment to GB consumers and be unlikely to deliver significant additional benefits. To complete the CBA, Frontier Economics considered that the costs of moving to a 15 minute ISP fell under the following categories:

- Trading platforms;
- Metering and notification systems;
- Scheduling and settlement;
- Billing systems;
- BRP forecasting, trading and scheduling;
- Documentation; and
- Network-related costs.

This CBA estimated that the net welfare of moving to a 15-minute ISP in GB would be between -€503.6m and -€1,681m.

As required by Article 53 of the EBGL regulation we cooperated with ACER to perform a CBA concerning the harmonisation of the ISP within and between synchronous area. Given the depth and timeliness of the Frontier Economics study, our approach was to base our CBA on the methodology, assumptions and data that were used in 2016 and were still deemed valid and up-to-date. ACER confirmed that it supported our approach to the CBA and that it was satisfied with the findings. ACER also highlighted that the next CBA completed in three years time as per the requirements of Article 53 of the EBGL, would need to be a more

⁶ Article 8(4) Electricity Regulation refers to 1st January 2021 whereas the Article 53 EBGL Regulation refers to three years after the entry into force of the EBGL Regulation, i.e. 18 December 2020.

⁷ The Electricity Regulation and the EBGL Regulation specify that it is for all the Regulatory Authorities of a synchronous area to decide whether to grant an exemption. As GB is its own synchronous area, Ofgem is able to make a decision on whether to grant such an exemption for the GB synchronous area.

⁸https://eepublicdownloads.blob.core.windows.net/public-cdn-container/clean-documents/Network%20codes%20documents/Implementation/CBA_ISP/ISP_CBA_Final_report_29-04-2016_v4.1.pdf

detailed assessment to take into account any coming market developments that may be relevant.

The costs that Frontier Economics presented in 2016 were calculated using the results of an industry survey on the costs associated with a change to a 15 minute ISP. In order to check that the given costs in the survey were still representative of industry costs, we engaged with stakeholders via the Joint European Stakeholder Group and invited them to inform us if their costs had changed since Frontier Economics performed their survey. The conclusion of this survey showed that the drivers behind the costs had not materially changed since Frontier's 2016 analysis.

Our CBA considered two policy options:

- a) implementing a 15-minute ISP; and
- b) maintaining a 30-minute ISP.

The following table provides a summary of our findings for each option:

Summary of options	Main effects on Consumer outcomes	Benefits	Costs	Key considerations (Risks, assumptions, distributional impacts etc.)
30 minute ISP	Consumers would not have to pay extra to comply with an obligation that would deliver limited benefits.	€0	€0	No risks. Additional cost benefit analyses are required every 3 years after granting the exemption. Therefore, there is a natural review process for the appropriateness of the exemption.
15 minute ISP	Consumers will incur significant costs in order for GB to move to a 15-minute ISP	€136.5m to €237.9m	€852.9 to €1,953.0m	A move to a 15-minute ISP would be permanent and GB would not be able to move back to a 30-minute ISP.

The results of our CBA found that harmonisation to a 15-minute ISP would incur significant costs and result in relatively little benefits. The results show that under all scenarios, the costs of moving to a 15-minute ISP has increased in the years since Frontier Economics CBA from 2016. In our reassessment of the analysis completed by Frontier Economics, we estimate that the net welfare for GB would be € -615m to € -1,816.6m.⁹

⁹ These figures are presented in 2018 values, where appropriate taking account of inflation and using 2018 GBP to € exchange rates from the following resources: https://ec.europa.eu/eurostat/statistics-explained/index.php/Inflation_in_the_euro_area#Euro_area_annual_inflation_rate_and_its_main_components, https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-gbp.en.html

Decision

We have reviewed the case for an exemption from the requirement to apply an ISP of 15 minutes in all scheduling areas in line with the requirements of the Electricity Regulation and of the EBGL Regulation and our statutory duties and obligations. In making this decision we have considered the CBA commissioned by ENTSO-E and Ofgem's internal CBA.

The analysis suggests that harmonising to a 15 minute ISP would not be in the interest of consumers and stakeholders and that an exemption to 15 minute ISPs will provide the maximum net welfare for GB consumers. Moreover, retaining a 30-minute ISP would not prevent GB from effectively participating in the new European balancing platforms.

We hereby:

- Grant the Electricity System Operator an exemption from the requirement to apply a 15 minutes Imbalance Settlement Period in the GB synchronous area, in accordance with Article 8(4) of the Electricity Regulation and Article 53 of EBGL Regulation.

Whilst our current CBA suggests a negative impact of moving to a 15-minute settlement period, it is important that industry ensures that any new system can cope with both 15-minute and 30-minute imbalance settlement period when there is a low cost of doing so. This should contribute to lower costs of a possible change if at any point in time, a periodic CBA suggests a high benefit of moving to a 15-minute ISP.

Decision not to undertake an Impact Assessment

We have not undertaken an Impact Assessment for this exemption. By granting an exemption to applying an ISP of 15 minutes, there will be no change to the imbalance settlement process in GB. Since the exemption maintains the current status quo, we consider that an impact assessment is unnecessary.

Next Steps

Following this decision to grant an exemption from the requirement to apply a 15 minute ISP, the current ISP duration of 30 minutes, as defined in the Balancing and Settlement Code, will continue to apply.

If you have any questions about the contents of this letter, please contact Kristina Stone (Kristina.stone@ofgem.gov.uk).

Yours sincerely,

Leonardo Costa

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