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**The Renewable Energy Company Ltd (Ecotricity) Response to  
Electricity Balancing Significant Code Review (SCR) – Initial Consultation**

Dear Andreas Flamm,

Ecotricity is an independent renewable energy supplier and generator, with over 65,000 domestic and non-domestic customers; 53 wind turbines across the country and the country's first solar park.

We welcome this opportunity to respond to the Electricity Balancing Significant Code Review. We previously responded to Ofgem's November 2011 consultation on electricity cash out and we have responded to several consultations on the Electricity Market Reforms, which we understand this coincides with.

Ecotricity's response is divided into two parts:

- A)** Answers to the questions outlined in the consultation; and
- B)** Our conclusion/summary views on the proposals outlined in the consultation.

**A) Answers to specific questions**

***Question 1: Do you agree with the approach and the proposed stakeholder engagement throughout the Significant Code Review (SCR)?***

Yes. Ecotricity agrees with the proposed approach.

**Question 2:** *Do you have any evidence that you would like to submit that may be relevant for any aspect set out in this document?*

Ecotricity does not wish to submit evidence for this document.

**Question 3:** *What is your view on the interactions between our considerations and aspects of the EU Target Model (TM)?*

We have a number of concerns about the EU target model, which we raised in our response to Ofgem's March 2012 Open Letter on Implementing the Target Model in the Great Britain.

We believe that whilst it makes sense for Eurozone countries to be more integrated, it does not necessarily make sense for the GB market to be included in this.

The Target Model fails to address the energy trilemma as many measures proposed will increase prices for consumers. For example, any advantage from day ahead market coupling will only be realised if there is a significant increase in interconnection, which in turn increases costs.

We also have concerns about the implications for loss of control by the UK authorities with increasing Europeanization of trading arrangements.

When considering the ways in which the proposals under the SCR will interact with the Target Model, it is important to note that foreign generators will be involved in any new mechanisms and that interconnectors will, in certain instances, be acting effectively as power plants.

In relation to the proposed balancing energy market (BEM), for example, foreign generators that trade in the GB market will need to set aside a portion of the interconnector capacity purchased for the BEM. The involvement of foreign generators will have the advantage of increasing competition in the balancing market, but may increase costs to the consumer due to the additional costs of transportation being incorporated, as well as a drop in national governance of the overall system.

In relation to the alternative arrangements for intermittent renewable generation, there are advantages in increased interconnection between European countries; however, again, costs and oversight concerns must also be considered.

We believe that increased physical power flows between European countries, as are expected under the target model, may make the proposed reserve market unnecessary.

If an information imbalance charge is introduced this must also apply to foreign generators. Content and formatting requirements for the information submitted must apply equally to GB and non GB generators.

The Target Model will create significant disruptions to the GB energy market. It is important that Ofgem attempt to reduce the impact of these, both in terms of its approach to implementing the Target Model and in ensuring that the measures taken forward following the SCR do not further increase burdens and complexity.



**Question 4:** *Do you feel there are any further alternatives to the reform options presented under our primary considerations?*

We do not believe that there are any fundamental problems with the balancing mechanism at present and therefore we would support the alternative of leaving arrangements as they are.

**Question 5:** *What other benefits or drawbacks can you identify for each of our primary considerations? Please provide any evidence you may have to support your position.*

We have chosen to combine our responses to Question 5 and Question 6. See response to question 6 below.

**Question 6:** *Which of the reform options considered under each of our considerations do you believe would provide the most efficient balancing incentives and why?*

Ecotricity agrees that more transparency is needed and we would support the measures proposed to incentivise this. We believe that the balancing energy market (BEM) proposed would go some way to achieving this.

In relation to the proposal for a more marginal cash-out price we believe that the cash-out price should be a weighted average of all balancing transactions.

We see some advantages in the proposal for a single cash-out price. Dual cash-out prices are essentially two prices for the same product in the same period; a system which currently results in a large spread. The differences between dual cash-out prices distort the market and are effectively a tax on trading. There would be some benefit to participants being able to trade out their positions so that the spread between buy and sell prices only reflect transaction costs and risk premiums. However, it is also probable that single cash out may lead to a less careful trading strategy being taken.

A single trading account would reduce transaction costs but may also reduce churn which would be harmful for liquidity.

The proposal to attribute cost to non-costed actions by the system operator should only be taken forward if it decreases prices for consumers.

As a general note we would caution that introducing changes will result in new unknowns as adapting to them will require time and resources.

**Question 7:** *Alongside this initial consultation we have published preliminary analysis of the last modification to the cash-out arrangements, P217A. Do stakeholders agree with the initial findings of this analysis?*

Ecotricity does not have any comments on P217A.



**Question 8:** *What additional analysis could be done as part of the SCR around Modification P217A and the flagging methodology it introduced?*

Ecotricity does not have any comments on P217A.

**Question 9:** *Do you agree with our rationale for considering making cash-out prices 'more marginal'?*

No we do not agree. We do not believe that the case has been made for this.

**Question 10:** *Do you agree with the circumstances we have identified in which the secondary considerations are important?*

We would support consideration 1, the improvement of information provided being introduced. Ofgem does not state the circumstances under which this secondary consideration would be introduced, however we would support it being introduced regardless of the decisions on primary considerations.

We would also support an information imbalance charge, but only if this was limited to persistent failure to provide adequate forecasts.

**Question 11:** *Do you have any other comment on the secondary considerations presented here?*

We would support improved information provision by the SO, including an improved imbalance forecast and the publishing information about the timing and volume of the SO's reserve actions.

Beyond improving information and transparency, we do not believe that any further secondary considerations are necessary.

## **B) Conclusion/additional comments**

As mentioned in our response to the November 2011 consultation Ecotricity is concerned that the Significant Code Review as a whole is not needed and will create uncertainty in the market. We are also concerned about the effect of the introduction of the Target Model and believe that it is vital that Ofgem consider all the ways in which these will interact and seek to mitigate any additional burdens they create.

We have mixed views on the effects of a single cash-out price and a single trading account for vertically integrated companies. We would be in favour of attributing cost to non-costed actions by the SO but only if it reduces prices for consumers. We would also be in favour of moves that improve transparency, particularly improved imbalance forecasting by the SO and an imbalance charge where participants persistently submit inadequate information.

Ecotricity welcomes the opportunity to respond and hope you take our comments on board. We also welcome any further contact in response to this submission. Please contact Emma Cook on 01453 769301 or [emma.cook@ecotricity.co.uk](mailto:emma.cook@ecotricity.co.uk).

Yours sincerely



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