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Dear Andreas and Jamie,

Electricity Balancing Significant Code Review

SSE welcome Ofgem's initiative to undertake a comprehensive and holistic review of electricity imbalance cash-out and energy balancing arrangements to understand whether the arrangements remain fit for purpose in an evolving market.

However, whilst recognising Ofgem's desire to better influence European developments, SSE remain uncertain that the timing is right to undertake critical policy decisions regarding significant electricity balancing reform.

There are a number of significant market developments and reforms ongoing at present, particularly EMR and European Network Codes that have a high level of interaction with electricity balancing arrangements. SSE is concerned about the potential for unintended consequences in formulating detailed design of policy options for cash-out reform prior to key decisions under EMR and European Network Codes; such consequences having the potential to undermine the operation of the market and/or lead to reversal of change and/or expenditure of nugatory costs.

It is vital therefore that the timing of key interactions between the varying policy developments (and implementation thereafter), is optimised, well understood and well

signalled to the market in order to minimise investor uncertainty. Development of a coherent, co-ordinated timeline setting out key milestones and interlocks for interacting policy developments would be a helpful step in understanding what the optimum timing might be.

Whilst SSE have attempted to provide a view in isolation on each of the primary and secondary considerations presented in the consultation document, it is difficult to provide an in depth assessment of options and impacts until a package of the consultation options has been determined that allow a better determination of key interactions and thus potential behavioural impacts on the market. Again this assessment would be better informed if key decisions regarding EMR and European Network Codes were in place prior the presentation of these packages.

With the above in mind, SSE are uncertain that publication of a draft policy decision document in March 2013 is the right timing. It may be more appropriate to aim to publish an interim document by this date setting out the proposed options for reform packages, prior to any indicative decision or minded-to statement. At the very least, it may be worth Ofgem engaging with industry prior to publication of its draft policy decision in order to present its thinking on the preferred package of proposals, along with assumptions, to allow a more in-depth understanding and discussion of the impact of the whole package of reform.

Yours sincerely,

Andrew Colley
Regulation Liaison Manager