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The Renewable Energy Company (Ecotricity)
Response to Open letter: Implementing the European Electricity Target
Model in Great Britain

Dear European Wholesale Team,

Ecotricity is an independent renewable energy generator and supplier, with approximately 60,000 customer accounts. We welcome the opportunity to respond to Ofgem's Open letter regarding the EU Target Model. As an independent supplier, we believe the EU Target Model will have a significant effect on the markets and interaction with other UK policies, and therefore on our business.

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 questions outlined in the open letter

Q1. What are the key aspects of the Target Model for GB?

We welcome Ofgem's view to holistically review and assess how best to proceed and encourage the necessary changes to remove obstacles to market integration, so as to achieve compliance with EU legislation. However, we believe the overarching aim for Ofgem should be to have a vested interest in protecting the GB market without changing it to fit EU policy.

Investment and balancing issues are our main concern. We would argue that the Target Model fails to address the energy trilemma and will increase network costs across the board.

In addition to this, we feel that although the target model makes perfect sense for Eurozone countries; where further economic coupling will be required to make the Eurozone work; as we are not within Eurozone, the proposals could be counterproductive, and potentially damaging to the UK economy as a whole.

Day-Ahead Market Coupling

There is a need for a completely free flowing market in order for the whole mechanism to work, and at present we feel that the infrastructure is not there. More interconnection will be required; this will raise costs to the consumer, which is contrary to the consumer costs element of the energy trilemma.

In practice, it would mean the day-ahead price is constructed from a generation mix conceivably external to the UK and therefore, a dynamic mix, giving less long-term price confidence and potentially more volatility.

Day-ahead market coupling is an advantage to mainland Europe but not for the UK. There would have to be an EU wide capacity. As a whole the concept is not plausible or realistic.

Continuous intraday trading

We would like to pose the following questions: given the link between day + 1 and intraday, how is the proposal going to be possible and who is going to control these prices?

Either coupling of the whole market must occur or not at all. Coupling of the whole system would cause huge balancing costs as the system would have to be balanced, as a whole, rather than as individual country networks. Because of the scale, this is not likely to be possible as it would create huge system losses. If we accept the premise that coupled market balancing is not feasible, then the balancing units within each country will have unprecedented pricing power; balancing costs would likely rise, most particularly in areas where the cost of generation is highest. This cost would be passed onto the consumer, again failing that part of the energy trilemma. Demand would vary within the whole system based upon difference in weather, location, time etc. For example, what time would be the correct time to trade to? More clarity is required on this. We believe UK local time is the most practical for the UK, whereas we do recognise that other European countries may argue that European Central Time is the most appropriate.

Electricity balancing

The changes outlined for electricity trading will not necessarily change the frequency response, which may become more prevalent going forward.

Long-term transmission rights

We feel that given that the interconnectors are owned and operated by private companies, this is un-enforceable. We also have concern over the projected interconnector capacities of 4GW at the end of 2012, potentially rising to 8 GW in 2020.

We would also like to highlight that the proposed reductions in interconnector costs will not necessarily encourage investment to build interconnectors, particularly if this model aims to cap the amount of revenue that can be made from interconnection. We feel that the scenario given is verging on best case and therefore unrealistic.

Q2. What changes will be needed to GB market arrangements?

Please see our detailed response to Question 1, which presents our key issues and concerns regarding the proposals and the necessary changes required to make it work.

Q3. Should we try and minimise change or consider holistically the best combination of GB and EU requirements?

We need to ensure any amendments are the most suitable for GB interests in the first instance, alignment with EU policy should be secondary. We also need to consider the alignment and changes to other GB policy mechanisms. Overall, we should try and minimise change, give confidence to investments, consumers and markets, and consider holistically the best way to cope in the market.

Q4. How can we deliver the best outcomes?

The most important requirement is the need for a clear transparent framework. We would also stress that consistent and regular consultation is key throughout the entire process.

Q5. What process is needed to take this work forward?

As detailed above, the process to take this work forward should be clear and transparent, with consistent consultation at every stage. We would recommend a review of the original aims, particularly those of the EMR. We need to evaluate whether the proposed changes will help meet these aims.


B) Our conclusion

Overall, our opinion is that we should try and minimise change. The overarching aim of any change should be to have a vested interest in protecting the GB market. We need to ensure that any changes still give confidence to investments, consumers and markets. In parallel to this we can then look to consider holistically the best way to cope in the market. We need to pay particular consideration to alignment with other existing GB policy such as EMR, RMR and Ofgems liquidity project.

In summary, we argue that the target model fails to address the energy trilemma and will increase network costs across the board. In addition to this, we feel the target model is positive for Eurozone countries where further economic coupling is required, but for the UK, the proposals could be counterproductive and potentially damaging to the UK economy as a whole.

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

Yours sincerely,

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