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Dear Rachel

Proposed Future Trading Arrangements Design project

Cornwall Energy welcomes the opportunity to respond to this consultation. We support the proposal for a project to set out and implement a high level design for future trading arrangements. The holistic view this will enable will allow a number of separate but pending developments to be considered in a coordinated way. This should help to ensure that the overall design is coherent and that it can be implemented in a way which minimises uncertainty for current market participants and potential investors and that enables the legitimate interests and views of different market participants, consumers and other stakeholders to be taken into account.

At the same time it will enable those urgent issues that can be progressed more quickly to be taken forward within the revised reduced scope of the Electricity Balancing SCR (EBSCR). We have strongly supported the need to take a broad view of the scope of changes needed to the cash-out regime and the need for coordinated rather than piecemeal change. However, there has always been an issue of a potential trade-off between waiting for greater clarity on industry developments and ensuring that appropriate new arrangements are in place in a timely manner. We believe that the issues that Ofgem has decided to include in the revised scope of the EBSCR are broadly appropriate; in particular the inclusion of the dual price nature of cash-out, which is a fundamental design issue and one that arguably has impacted negatively on the competitiveness of the market. It is right to press ahead in areas such as this where there are long-standing concerns.

We note that Ofgem does not necessarily envisage that a new long-term vision will involve a “radical departure” from the current market design, although the areas it has identified are very wide-ranging and are, we believe, the appropriate areas to focus on. While the arrangements need a firm theoretical foundation, the fundamental analysis should not be over-protracted (as arguably occurred in the SCR on transmission charging) but needs to rapidly get to grips with practical solutions in the areas identified.

The integration of renewables as one of the preliminary areas identified for the future trading arrangements design project is welcome, although we note that Ofgem is now talking about “ensuring appropriate routes to market” rather than, as in the initial consultation, identifying a consideration in the scope as “aggregating renewable output and balancing it centrally”. We hope that this does not suggest a downgrading of the operational challenges of the increasing rise in the level of generation from



renewable sources. It is also clear that facilitating more demand side response requires an overview of market design to ensure its integration and not a piecemeal approach.

In terms of the process for the review, a top down approach starting with the fundamental principles is a sensible approach given the scope, and it is logical to follow this by a design phase and moving onto an implementation timetable to develop and deliver change. Given this is a large and complex project seeking to deliver change where external developments are continuing a diverse range of market participants and interested parties need to be involved and kept informed. We have seen that with the more limited SCRs that are trying to manage major cross-code changes that this can take more time than originally envisaged and that differences of commercial interest and opinion are difficult to resolve. Therefore it is very important to ensure that at a detailed working level the processes, as well as the structures, are defined.

Our responses to the three questions raised in the consultation are given below. Please contact me if you wish to discuss our response further.

Yours sincerely

A handwritten signature in blue ink that reads "Nigel Cornwall". The signature is written in a cursive style and is positioned above a horizontal line that extends to the right.

Nigel Cornwall

Cornwall Energy responses to consultation questions

1. Do you agree Ofgem should launch a project to create a high level design for the future electricity trading arrangements?

Yes. We support the proposal to develop a high-level design for future trading arrangements and that this should be separated from the more immediate issues to be considered under the revised Electricity Balancing Significant Code Review (EBSCR). Given the major developments in progress which will impact the trading arrangements over the medium term, including the Electricity Market Reforms, the European single market, efforts to improve wholesale electricity liquidity, smart metering roll-out and potential changes to transmission charging, we think it is a pragmatic and sensible proposal to develop a longer-term and comprehensive view, particularly as the exact timing and full impacts and interactions of these developments are not yet all evident.

Taking an overarching view will enable a number of separate but pending developments to be considered in a coordinated way. This should help to ensure that the overall design is coherent and that it can be implemented in a way which minimises uncertainty.

It was also clear from the discussion in the EBSCR that there are some issues being looked at that needed consideration in a longer timeframe – for example the idea of a balancing energy market. It is therefore sensible to include these in the longer-term high-level design framework.

The focusing of the EBSCR should allow those issues that are to remain in scope, such as the question concerning dual or single cash-out prices and related areas including single or separate trading accounts. We have consistently supported a more marginal cash-out price provided pollution by system balancing costs can be removed. We also support considering how the allocation of reserve costs can be allocated and the treatment of non-costed actions.

2. What key issues should be examined as part of a workstream on future GB trading arrangements?

We believe that the preliminary issues Ofgem has identified are appropriate and that it has set out clearly the areas where there are key challenges.

As noted above we agree that the integration of renewables represents a key challenge for the electricity sector but we think that the review should consider a full range of possible solutions, including those which look to aggregate and despatch renewable generation centrally.

The integration of the demand side is a challenge for which the current market was not designed and it does not currently fit well with policies to encourage more demand side response. We support Ofgem's view that there should be enduring arrangements to facilitate greater customer participation in balancing arrangements.

Ofgem has identified a range of issues under the heading of efficient balancing and system operation, including the need for greater flexibility to manage changes to renewable output over various timescales. Efficient management of transmission constraints is another challenge and whether there are appropriate incentives and signals for market participants to facilitate efficient balancing and system operation.

The review is also proposed to look at incentives to maintain and invest in new capacity of all types, including demand-side response, increased interconnection, storage and generation capacity. This would include interactions with the capacity mechanism and include, for example, reserve services, possibly in the longer-term regional mechanisms at European level.

Ofgem also proposes to consider interactions with the gas market and to look at the institutional arrangements that may be required following reassessment of the balance of responsibilities between different industry parties.

It is also essential that this programme of work dovetails with the regulator's initiatives to improve wholesale liquidity as the effectiveness of each work stream will be, to some degree, contingent on the other.

We believe that this maps out the areas that should be considered.

3. What forms should the process take?

The review will require a clear process, a realistic timetable, and a structure that takes account of the wide range of input and legitimate interests to be considered.

We note that Ofgem considers that, if a decision is made to go ahead with a longer-term review, the design phase would be expected to last about a year, starting sometime this year, with the final output being a document containing a high-level design of the future trading arrangements. While a top down approach is clearly the right one, we suspect that for such a major undertaking this timescale may be ambitious. To help minimise the level of investor and market participant uncertainty that another major review will inevitably create, the timescales for the process need to be realistic and there should be a clear process at working level. More detail on how the proposed "range of working groups" and regular workshops to gain stakeholder input would be welcome.

As another major and complex project, Ofgem should also be mindful of the industry's ability to resource this, particularly smaller participants when they are already needing to expend much time and attention on existing reviews or change programmes, such as EMR developments. It should ensure that there is provision for adequate communication with and input by these parties in the detailed design of its engagement processes.

Ofgem has proposed that the next step following the high level picture of future trading arrangements is a roadmap for implementation which would allow for consideration of the appropriate sequencing, timing and determining of responsibilities for different parts of the new arrangements. This is a logical approach and to allow for an orderly process for reform it needs to have flexibility to take account of changes in timings and knock-on interactions.