Rachel Fletcher
Wholesale Markets
Ofgem
9 Millbank
London, SW1P 3GE

DONG Energy Power (UK) Ltd.
33 Grosvenor Place
Belgravia
London SW1X 7HY
United Kingdom

Tel +44 (0) 207 811 5200
Fax +44 (0) 207 811 5298

www.dongenergy.com
Company no. 49 84 787

Future Trading Arrangement Design

12 April 2013

Our ref. DONG Energy response
Future Trading Arrangement Design

jakfo@dongenergy.dk
Tel +45 99 55 91 66

DONG Energy welcome the opportunity to provide our response to the questions raised on the Future Trading Arrangements Design project proposed by Ofgem. Please find our initial thoughts below.

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

We agree that there are areas of the current market arrangements that could be reviewed; for example the impact of EMR policies on investment in new generation capacity, the increased penetration of Renewable Energy Sources (RES) and the impact of further market integration and harmonisation. We also consider that creating a market with flexible arrangements that are able to accommodate and incentivise demand side flexibility are desirable. However, we do question the timing of this initiative. There is a considerable demand on resource both within Government and across industry to accommodate the continued development and implementation of the changes that EMR will bring about. While your letter notes that the EMR process has moved from design to implementation, there are many details around the specifics of the policy proposals that are being developed as part of the implementation, and where there is still uncertainty.

We question the need for a further review process at this time and are not convinced that the issues identified for review are time critical, and instead could be dealt with post-EMR implementation. Allowing time for the EMR mechanisms to be completely finalised and understood by industry would also enable a better engagement process and better policy development, as Ofgem has noted that there are several overlapping areas between the EMR mechanisms and the trading arrangements.

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

In general some of the issues identified by Ofgem provide a good starting point and are relevant for the proposed work stream.

We would like to emphasise the following principles as having significant importance for the design of the future trading arrangement (FTA).

Ensure policy alignment with the EMR policies

The FTA should be framed in close coordination with DECC. It is important for the industry to get a consistent framework that can deal with the long term investment, carbon reduction and energy efficiency goals for the sector. Further it needs to be clarified how the Capacity Market and CfD framework will impact on, interact with, and be aligned with other parts of the future market arrangement. We question the need to incentivise new generation capacity through the EMR policies and through more marginal cash out prices, as covered in the new scope for the EBSCR, without first understanding what the impact of the EMR policies will be.

Facilitate European market integration

The implementation of the EU Network Codes and the future build out of interconnectors will make the GB market more integrated with neighbouring markets. The FTA should be designed to seize the opportunity of maximising the benefits of wider EU integration.

The EU Network Codes also call for an assessment of the need for market splitting in the GB into price zones. The new project on FTA should integrate this assessment of the most efficient way to solve system constraints and congestion in the GB market.

Recognise the intrinsic characteristics of wind energy.

The FTA should look into provisions and products that fully exploit wind energy's capabilities. Shorter trading time horizons and trading closer to real time should be a key objective to make full use of improving forecast accuracy and opportunity for reduced balancing needs. Well-functioning intraday and balancing markets are imperative as a first step to achieving this, and will be crucial for the ability of variable production to respond to more marginal cash-out prices, if that is the outcome of the EBSCR. Further interconnectivity of short-term markets between European markets has to be encouraged for efficient trading of wind generated electricity.

3. What form should the process take?

Recent experiences with other policy design projects where only a limited number of experts have been invited to participate in the process have shown that many stakeholders are left with no insights into and ownership of decisions and rationales for design choices. We would therefore stress the importance of making the process as inclusive and transparent as possible. In addition, as mentioned above, the industry is dealing with significant changes as a result of EMR and there is limited resource available to do justice to this very important process. It would be preferable to delay the start of any programme until after EMR has been implemented and after the detailed content of the EU Network Code on Balancing is known with more certainty.

About DONG Energy

DONG Energy is one of the leading energy groups in Northern Europe. We are headquartered in Denmark. Our business is based on procuring, producing, distributing and trading in energy and related products in Northern Europe. We have approximately 7,000 employees and generated £ 7.6 billion (DKK 67 billion) in revenue in 2012.

In the United Kingdom DONG Energy is one of the most active offshore wind investors and operators with a total capacity of approximately 3 GW, including five offshore wind farms in operation, a stake in further four sites currently under construction and a strong pipeline of future projects. In thermal generation, DONG Energy is operating the highly efficient CCGT power plant Severn in South Wales.
DONG Energy Sales UK was established in 2012 after acquiring the gas supply business Shell Gas Direct. We have an annual supply of around 2.5 billion cubic metres of natural gas to IC costumers and have started supplying electricity this year.

Developments of the GB electricity market arrangement and structure are very important to DONG Energy both in terms of present generation capacity, but certainly also for our significant future investment programme.

DONG Energy would be pleased to discuss any of the issues raised in the response and look forward to engaging with Ofgem. Should you have any questions relating to our response, please contact Jakob Forman on jakfo@dongenergy.dk or +45 99 55 91 66.

Yours sincerely

Danielle Lane
Head of Regulatory Affairs UK
DONG Energy