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Dear Rachel,

**Update on the Electricity Balancing Significant Code Review (EBSCR) and request for comments on the proposed new process to review future trading arrangements**

Thank you for your open letter of 18 February on the above issues.

We fully support Ofgem's proposal to narrow the scope of the Electricity Balancing SCR. We were concerned about the possibility of wide ranging changes being made to balancing arrangements, in light of the considerable change currently taking place in the industry. Deciding to split out those issues that warrant consideration in a longer timescale, in order to focus on areas more suited to review within the planned SCR timetable, is therefore a sensible approach.

As you mention in your letter, initiatives such as Electricity Market Reform and the European Target Model will have a significant impact on the electricity trading arrangements in GB. We agree that it is important that, as these new mechanisms are developed and implemented, Ofgem, Government and industry parties take a holistic view to consider potential interactions between them and to ensure that the arrangements as a whole continue to operate effectively, in order to provide the correct commercial incentives to market participants.

However, we would question whether the best approach is to launch a formal project to create a high level design for the trading arrangements. As we mention above, we fully agree with the aim of taking a holistic view of the trading arrangements whenever considering potential policy initiatives such as EMR and the European Target Model.

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However, a number of these initiatives are already well advanced and in themselves are aimed at influencing the overall design of the GB market going forward. If another project is created seeking to do this, there will inevitably be some confusion as to which initiative takes precedence.

We agree that a number of reforms currently being progressed are necessary in order to ensure future security of supply, promote a lower carbon economy and ensure that electricity costs are affordable. However, by their very nature such reforms create investor uncertainty until it is clear how the trading arrangements will operate in future. We are concerned that an additional new project could exacerbate that uncertainty by introducing another potential avenue from which change could be initiated.

Also, the extent of reforms currently taking place means that industry participants are already struggling with the workload that is being generated as a consequence. A further project would increase that burden at a time when resources are already spread thinly.

An additional concern about adopting a formal project structure is that it may lack the flexibility needed to deal with different initiatives progressing in different timescales. Issues relating to interactions between different mechanisms are already being addressed, such as whether short term security of supply is incentivised through the capacity mechanism or through imbalance pricing. Will a project be able to react sufficiently quickly in order to address these sorts of issues as they arise through the coming months?

Instead of initiating a formal project, it may be more beneficial for Ofgem, DECC and the industry to work in a more ad hoc manner within current policy reform initiatives. This could be facilitated through industry trade associations such as Energy UK or through greater use of bilateral meetings with parties. This would allow all relevant parties to consider how initiatives might interact and affect the trading arrangements as a whole. However, it could facilitate this in a manner that is more proportionate and provide the flexibility needed to deal with issues as they arise.

I hope the above comments prove helpful. We would be very happy to meet with you to discuss these issues further.

Yours sincerely

Paul Jones  
Upstream Trading Arrangements Manager