



Promoting choice and value  
for all gas and electricity customers

# Future Trading Arrangements

25<sup>th</sup> March 2013

## Objectives for today

1. Receive your views on the issues impacting our trading arrangements
2. Consider whether a FTA Design project is the best way to **deal with these issues**
3. Get your feedback on our plan for engagement and **next steps**

Your organisation is also encouraged to respond to the open letter by  
12<sup>th</sup> April 2013 to [gb.markets@ofgem.gov.uk](mailto:gb.markets@ofgem.gov.uk)

# 1. RATIONALE AND ISSUES

# Why is this important?

Discovery highlighted that the current trading arrangements do not.....

Provide the right signals for investment

Provide the right signals for efficient operation

Allow equal treatment of the demand side

Align with wider EU developments

Provide consistency between gas and electricity

As a result....

1) Prices are likely to be higher

2) Security of supply is likely to be lower

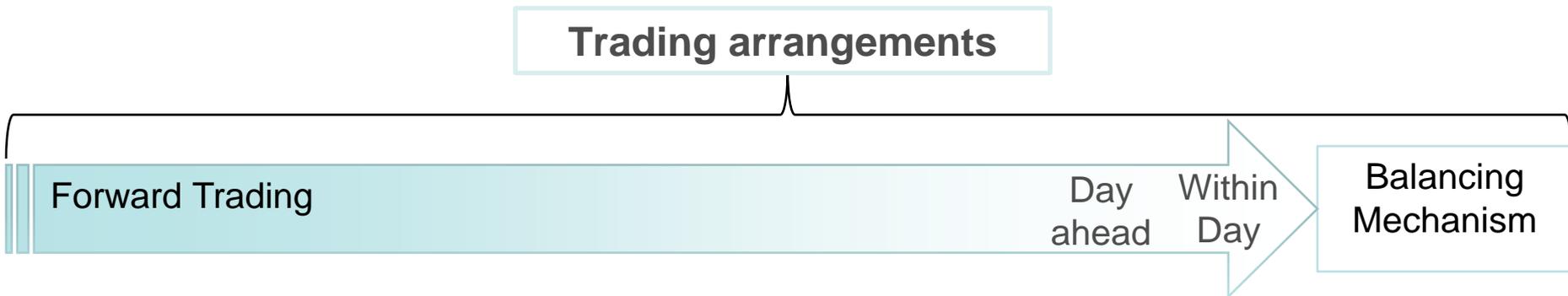
3) Low carbon objectives may be missed or will cost consumers more

4) Non compliance with EU reforms and more risks than benefits from integration

EMR focuses on 2 and 3

But there are significant concerns about the trading arrangements and their alignment with EMR and EU Target Model

# What are trading arrangements and the challenges?



## What are the challenges:

Increasing penetration of renewables - impact on balancing and system operation

Role of Demand Side Response

Route to market for renewables

Balancing arrangements and interactions with Capacity Mechanism

EU TM is pushing towards more integrated EU market

Institutional arrangements

Interactions with gas arrangements

# Our current arrangements were not designed for the low carbon era and EU TM

## Trading arrangements need to ensure:

Efficient operation of existing assets (transmission, generation, interconnectors etc...)

Appropriate incentives to maintain existing assets, invest in new capability and retire ageing capacity

Integration with wider European markets to the benefit of GB

## What are the levers:

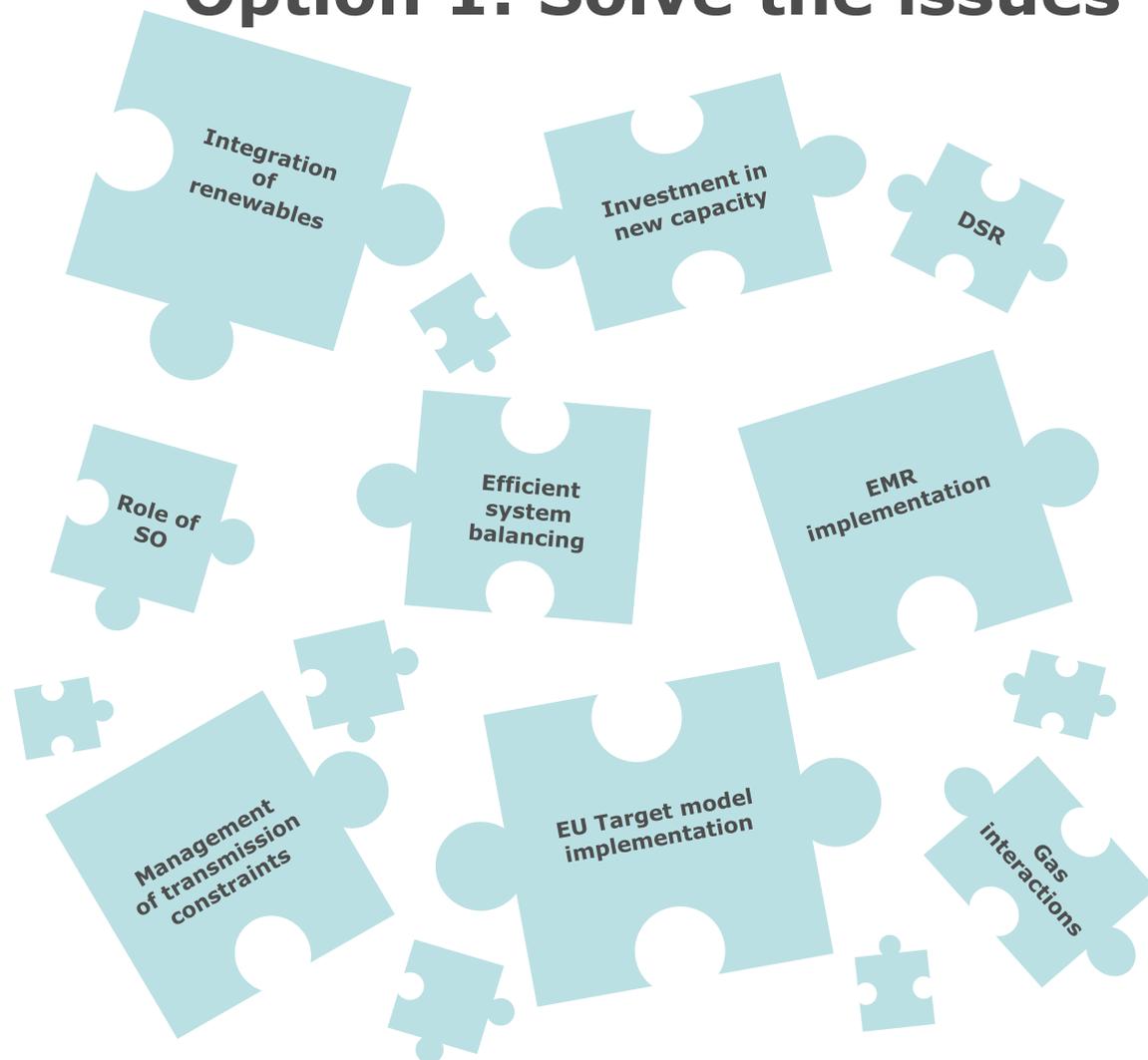
Changing rules for how trading happens

Change in investment and operation incentives on market players

Change in investment and operation incentives on SO

## **2. DEALING WITH THE ISSUES**

## Option 1: Solve the issues “Piece-by-piece”

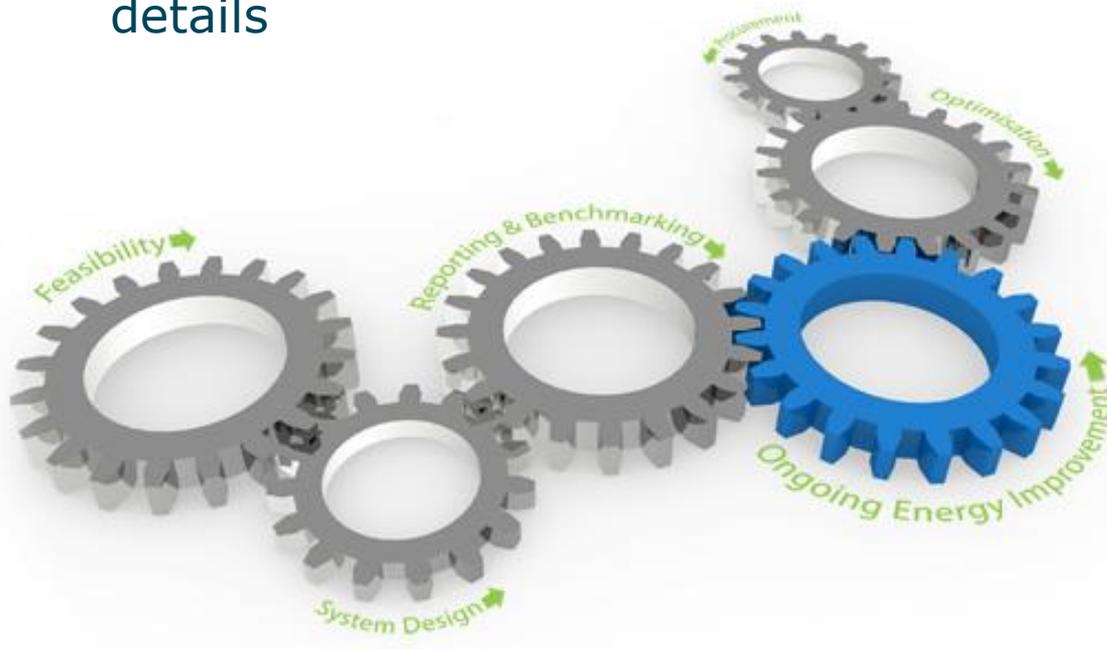


- Risk that the pieces don't fit together →
  - incoherent reforms
  - unpicking earlier steps
  - duplication of activities from Ofgem, Govt. and industry
- Difficult for stakeholders to follow and engage effectively



## Option 3: “High level design” and roadmap

- Agree the high-level picture
- Then develop priorities and a roadmap to complete the details

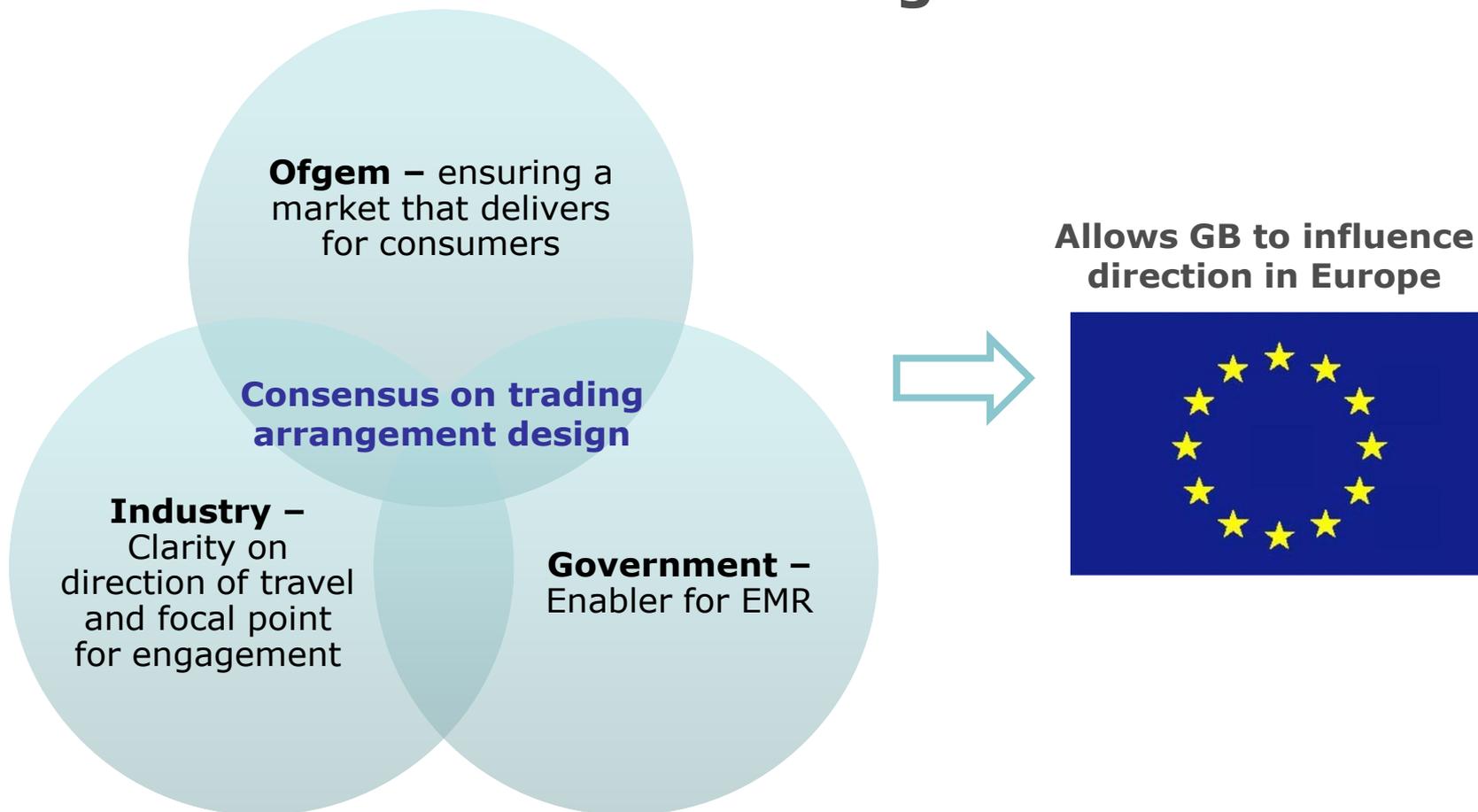


- Ensures all aspects are captured and linkages (eg with ITPR) are managed
- Helps to build consensus and create certainty about the direction of travel
- A single process for industry to follow and engage with

## What would the output look like?

- Contains a set of **agreed principles and objectives**
- Set out the **case for change** and the **main challenges**
- Considers **range of high level options** for addressing challenges (recognising constraints to these – such as EMR and the EU TM)
- Set out **recommendations** for FTA eg trading closer to real time/ approach to market coupling / new ancillary services etc...
- Set out a **roadmap** to take these forward

## Process would involve building consensus around the design



## Potential concerns with this approach?

### Does it create new work?

- These are issues that need to be considered to ensure compliance with EU TM or will need to be considered and resolved in the near future as the system becomes more stretched

### Does this undo EMR?

- This project is required to ensure the trading arrangements are appropriate to allow EMR to work

### Does this undermine investor certainty?

- Should aid certainty by:
  - Providing greater clarity and building consensus around the future operating environment
  - Avoid potential for incoherent reforms which need to be unwound later to comply with European legislation
  - Develop holistic vision for trading arrangements which provide incentives to invest in cost effective portfolio of flexible technologies (DSR, interconnection, storage, generation)
  - Considers interactions between EMR CM, EU TM, balancing arrangements and reserve procurement

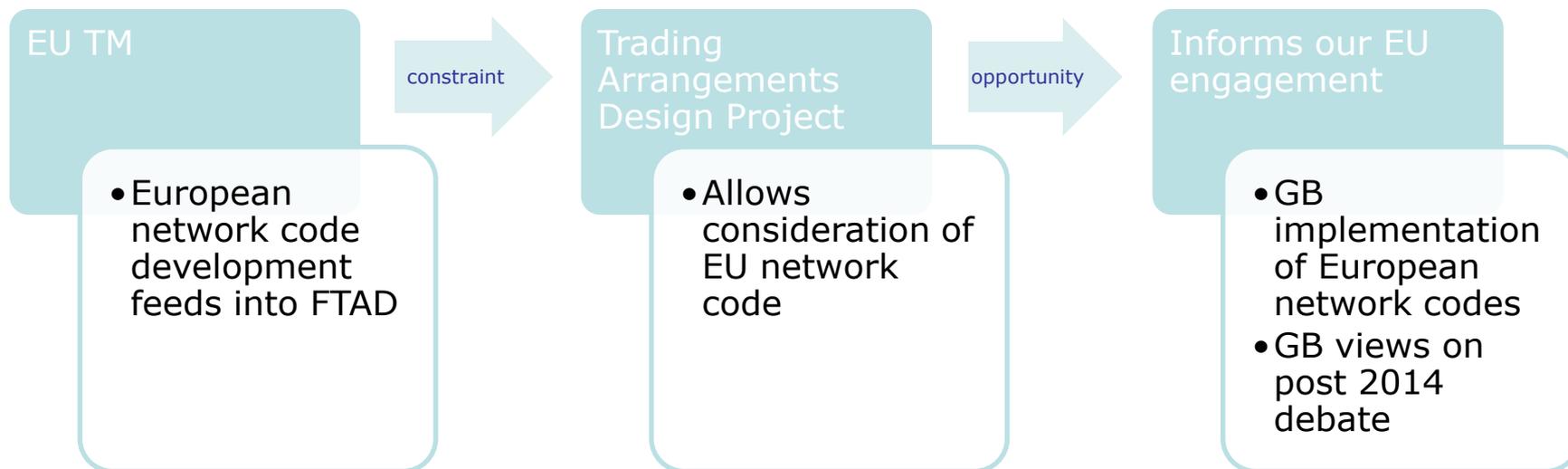
### Why do this now?

- In addition to above
- EU TM moving towards implementation and some binding obligations due to come in force in 2014 (eg considering market-splitting)
- EU considering how the Target Model fits in with renewables

### What issues might be missed if we do not undertake the FTA?

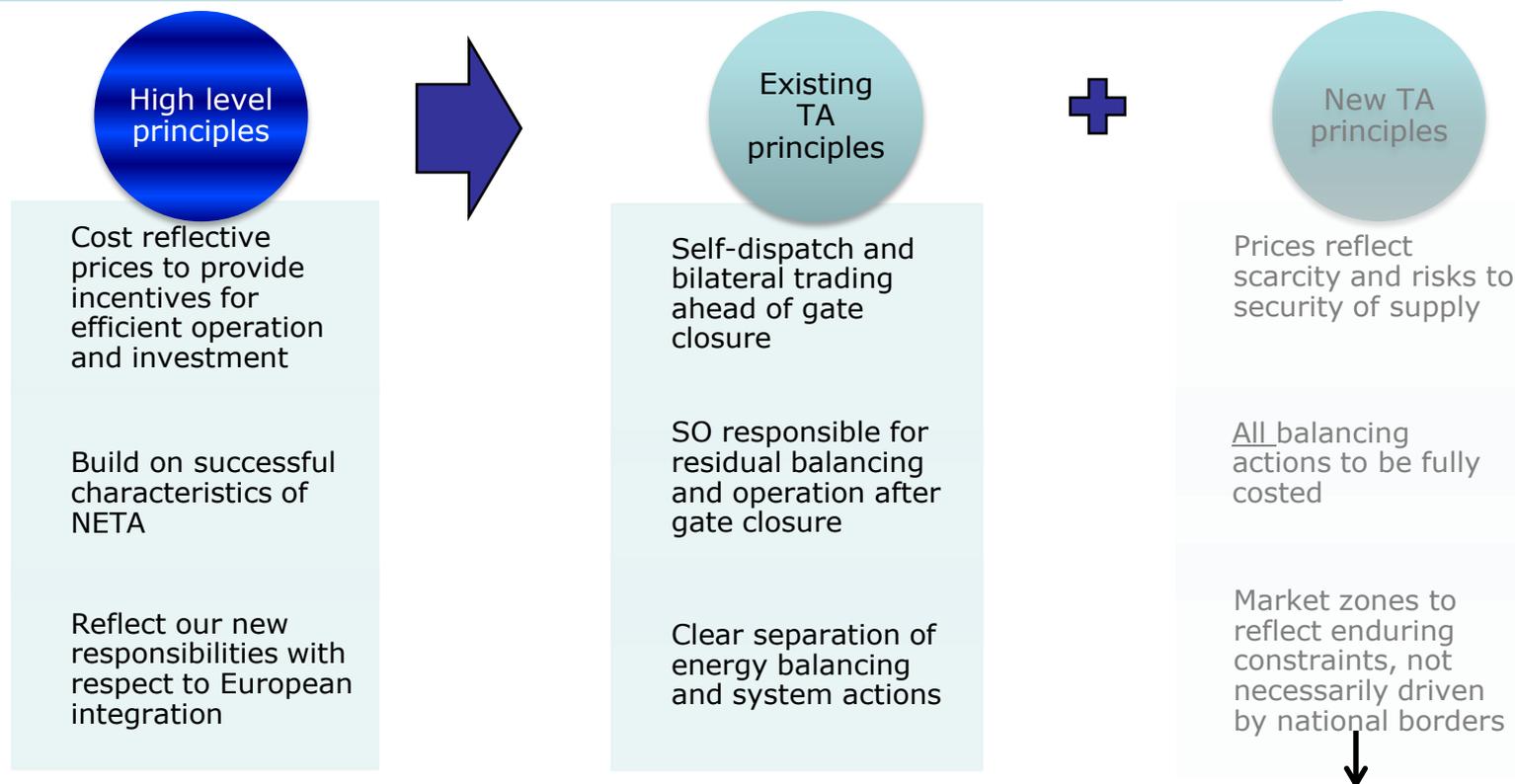
- Consideration of interconnector developments alongside European TM implementation
- Allows us to consider how to leverage smart technology

## How does this work with European developments?



## Does this undo NETA?

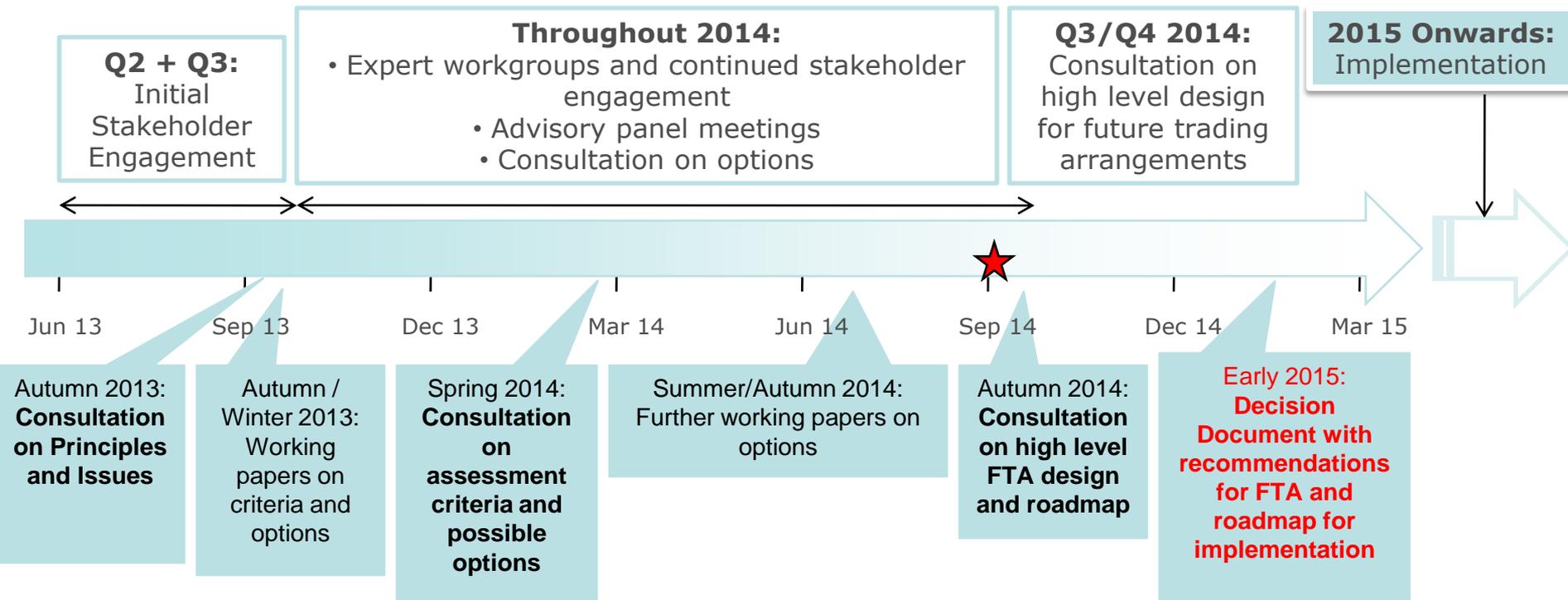
We do not propose to start with a blank sheet of paper...



For consultation but will need to factor in various constraints, e.g. -  
EMR, EU TM, political factors

# **3. PROCESS AND NEXT STEPS**

# Open and time-limited process



## Working with stakeholders

We are seeking to build consensus and provide clarity

Regular Stakeholder Events

Senior Advisory Panel

Technical Working Groups

Publication of Documents

- Issues and principles consultation
- Consultation to assess option and possible options
- Consultation on recommendations and roadmap for implementation

## Next Steps

- Responses to [gb.markets@ofgem.gov.uk](mailto:gb.markets@ofgem.gov.uk) by 12 April
- Following discussions today and after consultation responses we will make a decision on whether or not to launch FTA project
- Ofgem and DECC will continue to work closely with National Grid

# 4. QUESTIONS

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

*ofgem*

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