Monkton Reach, Monkton Hill,
Chippenham, Wiltshire, SN15 1EE
www.goodenergy.co.uk
enquiries@goodenergy.co.uk
0845 6011410

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

12th April 2013

Dear Rachel,

Review of future trading arrangements

Thank you for the opportunity to comment on your proposed new process to review future trading arrangements. As you are aware Good Energy is a licensed electricity supplier sourcing its electricity from over 500 decentralised renewable generators as well as developing its own renewable generation sites.

Executive summary

Good Energy welcomes Ofgem's decision to consider a review of the electricity trading arrangements. The industry is under going a sea change in the way it operates and how it generates and supplies electricity. It is crucially important that this review focuses on the future to delivering a trading arrangement that positively supports the decarbonisation of the energy sector, rather than sorting some of ills of today's market.

To this end the review must consider the best way to support intermittent sources of generation whilst ensuring real time energy security. The present arrangements are very much designed around despatchable, fossil fuelled stations and are acting as a barrier both to renewables and decentralised generation. They also inhibit to contribution that demand side (including energy storage) can contribute, except at the highest level, where I&C users can bid in whole MW's of demand reduction.

Finally, the arrangements need to acknowledge that many customers today are not just consumers, but also producers. However, they are not industry professionals and there will be an expanding role of aggregators at several levels within the market.

For your ease we have answered your specific questions below, expanding where necessary.

Q1. Do you agree Ofgem should launch a project to create a high level design for the future electricity arrangements?

Yes. We believe that now is an opportune time to launch such a project. It is widely recognised that the UK needs to decarbonise its electricity market by 2035, and whilst much detail remains to be concluded on EMR and the EU target model the landscape view is clearly defined to a level that would allow this project to commence to ensure the trading arrangements compliment the direction of travel to decarbonisation rather than act as a barrier.

With this in mind we do question the statement in annex 2 point 7 that "*we do not envisage that establishing a long term vision for GB electricity trading arrangements will involve a radical departure from the current market design*". Whilst this may be your current thinking, we would hope that this will not curtail you from embarking on a more radical solution if the project finds that the optimum solution requires this to be done.

To this end, the terms of reference to this project must be clear. That is to provide a GB trading arrangements that compliment the long term goal of decarbonisation in a competitive, more disperse and more connected energy market. One

of our criticisms of the original Balancing SCR was that it was focussed on balancing system efficiency as an end in itself rather than delivering a solution, and then ensuring the optimum solution was efficiently designed.

Q2. What key issues should be examined as part of a work stream on future GB trading arrangements?

The electricity trading arrangements are an integral part of the UK energy market and as such consideration must be given on how they interact in delivering correct investment signals to low carbon generation, and how they impact retail customers. For example, whilst physical system balancing is crucial, it does not follow that penalising parties less able to balance, such as single site intermittent generators as opposed to generators with a portfolio of generation technologies at their disposal is the best solution. As more intermittent generation comes forward, where the cost of generation is more based on capital repayment than fuel costs, then it may be that providing NGC with better balancing tools is more cost effective than a onerous penalty regime on parties.

One key issue not listed in your appendix is decentralised generation. Decentralised generators are not direct participants in the balancing market, but are seen as negative demand in a supplier's demand BMU. It is already the case that some supplier BMUs are significantly negative at times and this distinction between consumption and production BMUs is archaic. We believe it is important that any revision of the trading arrangements facilitates proper integration of decentralised generation along with demand side response in the market.

Another important consideration is the impact of grid connections and increased sharing of electricity across Europe and beyond, this more connected system will continue to bring benefits and limitations in the future and so this should be carefully considered.

We also believe that the project should look at how the trading arrangements would work if DNO's started to become more active DSOs, balancing their own networks with the consequential impact on the TSO. In particular, when the requirements of the DSO and TSO differ and market participants receive conflicting signals for action.

Finally, the arrangements need to be future proofed for the advent of energy storage. As intermittent generation increases, technological advances in energy storage are becoming more feasible and will be essential to a more distributed electricity system fed by a mixture of intermittent generators in the future. The UK is leading the field in storage development and the UK energy market should benefit from that by having a trading arrangement that facilitates it.

Q3. What form should the process take?

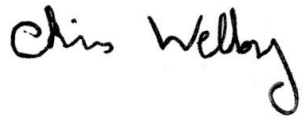
The first stage should be to set the terms of reference of the project, and these should be compatible with the overall aim of the energy market's trilemma of security (both real time and long term), affordability and decarbonisation. The process should design the optimum solution and not be curtailed by the current trading arrangements.

We are supportive of setting up a senior advisory panel, however the panel must be representative of the whole market chain otherwise the consequences of change elsewhere will not be understood. The Panel should include both a large and small suppliers, distributers (local and transmission), generators (centralised and decentralised), traders (physical and financial), investment financiers and consumer representatives. The panel should be required to sit as experts rather than company representatives who are capable of understanding the consequences of changing the trading arrangements on those parts of the market. This may result in a panel that does not show a balance of market players, but this can be resolved in working groups and other fora.

The process must be inclusive and transparent. Ofgem should also recognise that larger players are likely to put dedicated resource into this process where as smaller players are likely to have limited resources. That being the case it would be useful for Ofgem to reach out positively to these parties to ensure they are getting input.

Good Energy has significant experience of balancing a renewable portfolio and we would be happy to share our experience of this with you if you would find this useful.,. Please feel free to contact me to arrange or discuss any other issues raised in this response.

Kind regards,



Chris Welby
Policy & Regulatory Affairs Director.