

Future Trading Arrangements Stakeholder Event

Date and time of Meeting	25 th March
Location	Ofgem, London

1. Introduction

- 1.1. Rachel Fletcher welcomed participants and in her opening remarks explained the objectives of the meeting. Ofgem wanted to get industry feedback and reaction to the idea of a design project, views on the issues that affect the market and thoughts on process and structures to be utilised in a potential project. She recognised the importance of consensus and the fact that there were a large number of initiatives already underway. One of the aims of the project would therefore be to act as a focal point and manage interactions. Moreover, Rachel stressed that it was important that the project is deemed useful by stakeholders.
- 1.2. DECC (Rachel Crisp) supported the initiative, were pleased to see the open letter and are keen to work closely with Ofgem. Rachel also emphasised that DECC's interests were closely aligned with Ofgem.

2. Presentations

- 2.1. Ofgem presented on the rationale for the programme, possible issues impacting our trading arrangements and how the issues could be dealt with. Ofgem's presentation can be found on our website at:
http://www.ofgem.gov.uk/Markets/WhlMkts/CompanEff/electricity-balancing-scr/Documents1/FTAD_Ofgem_25thMarch1.pdf
- 2.2. National Grid agreed that a focal point would be beneficial in recognition of upcoming challenges. Their presentation focussed on 3 issues impacting the system operator (SO):
 - i. Incentives for the market to balance particularly in light of increasing renewables on the system
 - ii. The role of the SO as the residual balancer
 - iii. Delivery of the EU Target Model (EU TM)
- 2.3. The presentation can be found on our website at:
http://www.ofgem.gov.uk/Markets/WhlMkts/CompanEff/electricity-balancing-scr/Documents1/FTAD_NGET_25thMarch.pdf

3. Rationale, Principles and Scope

Rationale

- 3.1. There was a general agreement that holistic thinking should be encouraged and a forum for discussion of future challenges and interactions between initiatives would be beneficial.
- 3.2. Many stakeholders expressed concerns about the number of initiatives associated with electricity markets and therefore emphasised the need for a process that considers interactions and facilitate the development of a holistic view of the market. In

developing such a process stakeholders asked Ofgem to be mindful of the impact on industry resources. Many stakeholders recognised that there had been significant policy development since BETTA eg EMR, increase in renewable generation, interconnectors, and the EU Target Model. Therefore they felt it was important to look at the trading arrangements with a view to consider whether they need to adapt. Stakeholders emphasised that it was extremely important that any change was strongly justified. Change beyond what is strictly required by EU legal requirement needed to be carefully considered and knock on effects thoroughly assessed.

Principles and Scope

- 3.3. Ofgem clarified that any potential scope had yet to be determined and deciding on it would be an important next step.
- 3.4. There was a general agreement that the issues identified in Ofgem's letter are comprehensive and broadly the right ones.
- 3.5. Some stakeholders expressed caution over too large a programme under which the expectations would be large but they may not be fulfilled. There was recognition that it was important to be clear upfront over the scope of the project, set out priorities and outline the parts that would not change.
- 3.6. It was noted that it was important not to prejudge the issues and Ofgem agreed that the principles were not set. Ofgem would consult on the principles and this would be an important output from the process. Stakeholders expressed a lot of support for a consultation on the principles and agreed that the process would not be starting from a scratch but build on existing NETA principles

Demand Side Response

- 3.7. There were mixed views over the potential impact of DSR. Some participants were sceptical over the level of the DSR that could be achieved and it was important to avoid putting too much emphasis on turn down as it was unattractive to businesses. On the other hand others argued that it was essential that turn up and in particular turn down were facilitated eg for the tea time peak, otherwise there needed to be higher capacity.
- 3.8. There was recognition that on the issue of DSR there were impacts along the whole supply chain eg operator, DN's, retailers etc.

EU Target Model

- 3.9. There was some concern following NGET's presentation that market splitting was being considered. Ofgem and other stakeholders explained that the European directive due in 2014 would require consideration of the issue. Other stakeholders suggested the Future Trading Arrangements Design (FTAD) process could facilitate a discussion about market splitting, in particular the methodology for assessment and on the implications.

Impact and Integration of Renewables

- 3.10. The majority of participants felt that renewables and the integration of renewables were increasing in importance. Some participants felt that it was important that renewables were integrated in the market rather than protected as they were an increasing part of the generation mix and this would help foster competition.

Interactions with Gas Market

- 3.11. A number of stakeholders felt that this was an area that was lacking joined up thinking.

4. Process and managing engagement

- 4.1. There was a recognition that Network codes are proceeding at different pace, some issues need to be prioritised for GB to be able to influence on time.
- 4.2. Stakeholders suggested and expressed preference for the FTAD being a process with clear outputs to ensure alignment with EMR and EU TM implementation. Some felt that grouping issues and developing different timelines according to level of priority would be beneficial.