

Friday 12 April 2013

Rachel Fletcher
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Dear Rachel

RenewableUK is the leading UK renewable energy trade body, representing 570 corporate members in the wind, wave and tidal stream sectors. Members include suppliers, generators and manufacturers. RenewableUK appreciates the opportunity to respond to Ofgem's open letter dated 18 February 2013 on the Electricity Balancing Significant Code Review (EBSCR) requesting comments on the proposed new process to review future trading arrangements. We welcome Ofgem's decision to scale back the scope of its EBSCR work. As was demonstrated by a number of stakeholders there is simply too much policy currently under discussion, making it an inopportune time to take on broader EBSCR work.

Overall RenewableUK membership is supportive of the proposed reduced scope of the EBSCR work stream. However, the starting point must be a clear set of objectives for the process. For instance, it must be decided what the trading arrangements should be designed to do. Once objectives are agreed to then the current and future design options can be tested against this fundamental requirement list.

Sharpening of the marginal cash out price has been left in the scope, and indeed is a key focus. This proposal disproportionately impacts variable generation such as onshore and offshore wind. Meanwhile, much of the work that would ameliorate the impact of such sharpening has been moved to the longer-term trading arrangements review, with no guarantee of success and a longer time frame for implementation. Consequently, the scope of the 'rump' EBSCR as proposed potentially presents short-term pain with only the promise of indeterminate improvements further into the future. Ofgem needs to ensure the remaining initiatives within the scope are well balanced to avoid one technology in particular being unduly affected.

Below RenewableUK expands upon the three questions presented in the open letter:

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

RenewableUK supports Ofgem pursuing a project to create a high level design for the future electricity trading arrangements. Before progressing the project further it is important Ofgem takes time to clearly define the overall objective in consultation with all stakeholders, given the number of reforms currently under discussion including Electricity Market Reform (EMR) and European Integration. It is important that the review only does what is necessary, while

still achieving what only changes to the trading arrangements can do. The project should be manageable so that it can realistically be completed within a reasonable timeframe, and with a minimum draw on the time of market participants, since they are already heavily engaged with other reform processes.

Ofgem should also be cognisant of the relatively short timescale to implement changes to electricity trading arrangements before a potential change in Government. While trading arrangements should be a relatively apolitical issue, the current Opposition has made clear an intention to act in this area. This would point to keeping the scope of the trading arrangements review limited in order for the project to be 'done and dusted' before any possible Government transition. While a future Government could enact changes, if a limited review is implemented early there will at least be a workable framework while these changes are debated.

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

It is critical as Ofgem moves forward with its work on future trading arrangements that it is joined up with the work DECC and others are doing. Both Ofgem and DECC must work closely with one another, and with industry, so that potential conflicts and complications are minimised. In addition, it is necessary to fully understand how everything works together and where Ofgem's work begins and ends compared to that of DECC's. This requires clear objectives and a guide to where particular issues sit, whether that be Ofgem, DECC or a clearly stated combination of the two.

Of the seven issues raised for potential consideration we have the following comments on five in particular:

- Integration of renewables – RenewableUK agrees it is key to ensure future trading arrangements are designed with variable renewable generators in mind, and provide appropriate routes to market for renewable generation. However, steps by Ofgem should not hinder the work DECC is currently undertaking on this matter.
- Facilitating Demand Side Response – Ofgem's approach seems sensible, but RenewableUK would caution more attention is needed to explore barriers within the system to new storage technologies.
- Efficient balancing and system operation – It is in everyone's best interest to efficiently balance the electricity system. However, this is a complex area that will require considerable analysis and engagement in order to bring forward the most appropriate reforms, not least as these may require more active engagement by renewable generators with the balancing system than they have hitherto had to undertake.
- Effective integration with the wider European market – The importance of integration with the wider European market cannot be overstated. Balancing and reserve requirements can be minimised through effective interconnection and cross-border trading, so it is vital to consider how to maximise the potential gains and integrate with the policy initiatives emerging from the European Union (EU). It is also vital to enable effective trading with other European countries if the UK is to gain the maximum benefit from its huge renewable resources.

- Incentive to maintain and invest in new capability – How this function interacts with the mooted Capacity Market under EMR is key. Our belief is that separating the remuneration of capacity and capability is a missed opportunity to efficiently encourage the flexibility needed to integrate large quantities of variable renewable generation. Ofgem and DECC will have to work hard to gain the same outcome through these two parallel streams.

While the list of issues set out in Annex 2 of the letter appears comprehensive, we would urge Ofgem not to fix the scope of the review until after the thorough preparation of the ground from engagement with the industry and others. The proposed list may be the right one, but given the importance of this process we believe there is benefit in making sure of the scope before moving on to specific policy options.

We commend Ofgem on its efforts thus far engaging industry and encourage this to be maintained throughout. This may involve establishing Expert Groups tasked with engaging in technical areas of discussion when opportunities arise. These groups should be open and transparent including publicly sharing minutes and documents online. A comprehensive and ultimately accepted process is required to secure investment in an environment where multinational companies can invest anywhere in the world.

What form should the process take?

An appropriate amount of time will be required to identify the problem because of the complexity of the process. This includes getting everyone on the same page and identifying the problems. At the same time there should be a timeframe to avoid the process being unnecessarily drawn out. A long drawn out process will lead to uncertainty, which is not free. Uncertainty leads to increased cost of capital subsequently resulting in higher costs to consumers. We would argue that appropriate investment of time in fully engaging all parties in the design phase will lead to a smoother and quicker resolution of the review overall. We would be happy to facilitate engagement with our members to achieve this result.

Given the work of EMR and European Integration the work stream must be focused and avoid unnecessary mission creep. From the beginning topics included within the work stream should be set out and sprawl should be avoided when possible.

Thank you again for the opportunity to respond to this open letter. We and our members look forward to further updates and are keen to be involved throughout the process of developing Future Trading Arrangements.

Yours sincerely



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