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

Dear Giuseppina,

We welcome the opportunity to respond to the above consultation, this response is provided on behalf of RWE npower, RWE Generation SE, RWE Supply and Trading GmbH and the UK subsidiary of RWE Innogy GmbH, RWE npower renewables.

It would seem sensible to focus the Electricity Balancing SCR on issues that are well understood and could have an immediate impact on market incentives; this is not to say that the issues are straightforward or easy to make a judgement on.

Our answers to your questions are;

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

In principle we agree with an approach that recognises that some of the proposals are more fundamental to the design of the trading arrangements and these should be considered over a longer time frame. The downside of this is obviously the extended period of uncertainty on top of that we already have.

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

In annex 2 of your document, you identify potential issues to be considered. We provide our initial comments on these below.

**Integration of renewables** – we would not want to see more favourable routes to market for different generation technologies. We prefer that market incentives promote the efficient market response and this would be our starting point for the integration of renewables.

**Facilitating demand side response** – We believe that as long as the incentives in cash-out reflect the true value of scarcity then there is no reason why these incentives will not initiate the correct response from the demand side. We do not agree that the case for a capacity mechanism has been made and are concerned that now one is likely to be introduced, the proposals for a capacity

mechanism are likely to result in a reduction in market incentives coming from the energy market. It will be difficult to get efficient signals back into the energy market.

**Efficient balancing and system operation** – The starting point should be to get the signals coming out of cash out correct and this should provide the incentives for flexibility. A separate market for reserve or increased use of balancing services could bypass the main market and may not produce an efficient result.

**Effective integration with the wider European market** – In danger of stating the obvious but any future design will need to take into account the wider European market.

**Incentives to maintain and invest in new capability** – DECC seem to indicate that the capacity mechanism will be designed such that it could be removed at a later date. This would be dependent on a fully competitive energy market delivering the appropriate signals to invest in generation. If this is correct then any changes to the market arrangements will need to take into account the design of the mechanism whilst seeking to deliver the incentives to reward capacity and energy.

**Interactions with gas arrangements** – We agree that this is an important consideration, which should work both ways, changes to gas arrangements should take into consideration the electricity market.

**Institutional arrangements** – The most significant change to institutional arrangements is likely to come from the EMR process. The present governance arrangements (whilst not perfect) reflect a reasonable balance which allows change to take place whilst giving industry opportunities to provide its view. There is also a well established appeals process. Any proposed changes coming out of this potential review needs to take this into consideration.

### **3. What form should the process take?**

NETA was a joint project between DTI and Ofgem and benefited from an approach that was joined up across government and the regulator. It is therefore encouraging to see that Ofgem intend to work closely with DECC and industry if this proposal goes ahead.

Please contact me if you have any questions.

Yours sincerely



Alan McAdam  
Economic Regulation Manager