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Dear Giuseppina,

**Open letter: Electricity Balancing Significant Code Review and proposed project future trading arrangements**

We welcome this update from Ofgem and its recent roundtable event in an effort to further engage stakeholders and gather views in what is an area that is facing immense change.

In the attached annex, we have provided our thoughts on Ofgem's proposal to launch a new project on the future design of electricity trading. In short, whilst we believe Ofgem is well placed to carry out this 'review', we are very aware of the complexities of the trading arrangements and the wealth of interactions and level of impending change in this area. It is therefore key that any additional project does not add to, duplicate, or conflict with, the already proposed changes and work programmes, but rather identifies any gaps in the development and delivery of the UK Government and EU agreed policies. Moreover, consideration must be given to the cost of resourcing and conducting such a review, particularly in light of these other initiatives, and the cost of any resulting system changes that should follow as a result.

In terms of Ofgem's update on the Electricity Balancing Significant Code Review (EBSCR), for similar reasons, we support the position taken by Ofgem to reduce the scope of the Electricity Balancing Significant Code Review (EBSCR) and to focus on the long-standing concerns and those where the risk of further change (through, for example, the European Balancing Network Code) is thought to be limited.

I hope this is useful input at this early stage and would welcome the opportunity to be involved going forward. In the meantime, should you wish to discuss any of the attached, please do not hesitate to contact me.

Yours sincerely,

Gillian Hilton  
Regulation.

## ANNEX

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

Given that there are so many energy related initiatives taking place, we agree that there is a need to ensure that the trading arrangements are robust to ensure that the raft of potential outcomes deliver appropriately against UK Government Energy Policy Objectives overall. In addition, given Ofgem's enduring role in regulating the market, it seems appropriate that Ofgem should launch a high level design project that aims to provide an oversight of future electricity trading arrangements.

However, in doing so, there is clearly a need for 'joined-up thinking' and this should include the opportunity for input from Government through, for example, DECC, plus input from wider industry and stakeholder groups, not least consumer groups. The reason for this being that such a review will have knock-on effects at all points in the supply chain and associated initiatives, such as smarter markets affordability and smart meter roll-out.

We therefore consider it key that an initial scoping exercise is carried out to clearly identify any potential problem areas. This should aim to prioritise and identify areas demanding early action from the outset. This scoping exercise needs to take account of current industry initiatives, but should be sufficiently flexible to accommodate future changes and developments in UK Government and EU Policy initiatives. It will need to balance what could be a wide range of options intended to deliver UK Government Policy. It should highlight areas of concern but should not change their intent or design.

It will be crucial for the effectiveness of the project that there is buy-in across Government and industry stakeholders. We believe this is likely to be best achieved through a structure that includes a Project Board and the establishment of Expert Groups. Again, it will need to be made clear from the outset the role, governance and vires of the Project Board and Expert Groups.

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

In addition to the seven issues highlighted in Ofgem's update, we would suggest that the project also needs to take consideration of the following:-

- (i) the overall de-carbonisation of electricity;
- (ii) the resulting commercial impact on contracts and incentives to invest in new plant; and
- (iii) the possible adaptation or extension of the initial principles at the heart of the New Electricity Trading Arrangements (NETA) to better reflect the current need for prices to reflect scarcity and risks to security of supply.

In terms of process, we would like to understand how the project will fit with the existing Significant Code Review process.

### 3. What form should this process take?

The project launch should set out the scope, timeline, project milestones and associated deliverables, together with a detailed governance structure and engagement process. It should include sufficient checks, balances and milestones to minimise scope creep.

Given the likely significant scope and timescale of the project, it will be important to have an early problem identification stage, which needs to conclude rapidly – with issues needing urgent action addressed quickly and at least in time for imminent policy developments, such as the first capacity auction and CfD price setting under EMR, which are scheduled to take place in 2014.

In addition, it is important to be clear that this is an exercise to identify the gaps in the development and delivery of the suite of UK Government and EU agreed policies. It will be imperative, particularly for investor confidence, that the project is not seen as cutting across or indeed expanding the reach of these higher level policies.

Finally, it will be important to ensure that this GB review takes full account of, and does not conflict with, the changes emerging from the ongoing development of the European Network Codes in the areas of Balancing, Forward Capacity Allocation, and Capacity Allocation and Congestion Management.