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Dear Ms Fletcher

Electricity Balancing Significant Code Review

Total Gas & Power (TGP) is one of the leading energy suppliers to industrial, commercial and business customers within the UK. Part of the Total Group of businesses, TGP is a market leader in the UK gas supply market and has been supplying electricity since 2001.

Generally TGP do not support Ofgem's proposal to undertake a wider review of the traded market at this stage. While we agree that there are a number of policy decisions arising that may require changes to the electricity trading balancing arrangements, the time is not yet right to undertake a major new work program. That is not to say we do not think Ofgem should continue to monitor issues and where necessary bring forward policy change proposals, but a wholesale review of the market, following on from EMR and other policy changes (smart, TransmiT, IED, EBSCR as is, DNO charges, etc.) would be unhelpful and create additional uncertainty and regulatory risk for investors.

TGP would like to take this opportunity to comment specifically on a number of the issues Ofgem raises as potentially requiring a wider market review:

- **EMR** – TGP agrees that the design of the capacity mechanism in particular may lead Ofgem and DECC to conclude that the cash-out mechanism may not create a coherent set of signals for some generators. However, this can be tackled in Ofgem's existing cash-out review. We have seen nothing to suggest more radical, or wider, changes are needed.
- **EU Target model** – This may require market changes, but it would be premature to draw that conclusion at this stage of the model's design. Ofgem should wait until the model is finalised and then undertake a compliance review.
- **DSR** – TGP works with many customers who may want to offer demand side services and the opportunities for DSR will hopefully improve with greater penetration of smart meters. However, Grid are looking at demand control, Elexon has a smart project, DECC has a DSR pilot, and DNOs are looking at encourage DSR via charges and new DSR services under DCUSA. It would therefore be prudent for Ofgem to look at potentially coordinating all this work so that the market can offer customers a

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coherent set of DSR product options, possibly with different counter parties (Grid, DNO and suppliers).

- **Renewable generation** – while TGP agrees that the generation mix has, and will go on, altering significantly, renewable energy must be subject to the same rules as all other generation. No case has been made for treating specific types of generation in a “special” manner, nor would we want to see renewable generators face cash-out incentives and penalties that weaken the signals for them to trade ahead of gate close, forecast and balance. The challenges facing the SO can be considered under their price control incentives and as part of CUSC and Grid Code governance processes.

TGP are also concerned that Ofgem needs to focus resources on achieving some of its other policies before moving forward with another large change programme. It is vital that Ofgem acts to improve liquidity in the market. Its work on liquidity appears not to have progressed in months, yet the basic EMR design relies on a liquid market: to provide a CfD reference price; to allow generators to trade capacity rights; and to give investors a forward curve against which to value projects. Ofgem’s existing SCR may also increase imbalance prices, increasing balancing risk on suppliers which they will not be able to efficiently and effectively manage without a liquid market. TGP would urge Ofgem to act on liquidity as their top priority.

On the wider issues Ofgem raise, TGP believe it may be more effective for Ofgem to create an energy balancing workstream (similar to UNC workstreams) where the various strands of work in this area of the market can all report back. The group, with Ofgem, can then identify where any potential conflicts or problems are arising, discuss solutions and take required changes through the relevant code governance processes. This would be an open, inclusive and iterative process that would better manage regulatory risk.

TGP would be very happy to discuss any of these issues with you or your colleagues, but would urge you to focus first and foremost on improving liquidity.

Yours sincerely

Andrew Green

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UK Energy Retail*

This letter was sent electronically and therefore was not signed

