

*by e-mail*

Giuseppina Squicciarini  
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Dear Giuseppina,

**Initial comments on the Future Trading Arrangements Design Project**

Thank you for the 18th February update on the Electricity Balancing Significant Code Review (EBSCR). Statoil UK agree that it makes sense to run a separate process to consider longer-term electricity trading arrangements rather than continue to consider them as part of the EBSCR. Furthermore, the process proposed in your letter – starting with an initial design phase to understand and prioritise the changes needed, and followed by a planning phase – seems prudent. We look forward to understanding more about your proposals at the roundtable on 25th March, but in the meantime we hope some initial comments will be useful.

On potential issues, we largely agree with those proposed in your letter:

- In particular, we agree that attention is given to the integration of intermittent renewables (such as wind, solar and tidal) since these generation assets share the same characteristics. Options such as allowing generators to trade closer to real time (if not taken forward under the EBSCR), and the availability to aggregate renewable output and balance it centrally, should be explored as potential remedies. Another issue that should be assessed is the impact of likely more marginal cash-out prices as increasing volumes of intermittent energy come onto the system.
- On Demand Side Response, we support its inclusion as it is expected to play a role in the future, not least in the pilot scheme under the proposed capacity market. But as we expect its likely contribution to be relatively small, we would suggest that it is not considered one of the main areas of focus for the work.
- On efficient balancing and system operation, we believe the balancing incentives already present within BSUoS may be sufficient, and the solution may be less about creating a separate market for reserves than increasing transparency to participants on how reserves are being procured and under what terms. On transmission congestion, we believe any remedies should be stayed while licensees implement their measures to reinforce the network; otherwise they risk being introduced and then withdrawn, adding complexity unnecessarily.

On the process to be followed, we would support a senior advisory panel being set up to provide regular guidance to the project, and believe its composition should be a mix of representatives from vertically integrated entities, independent generators and academic experts. This should be supplemented by periodic workshops to discuss the prioritised issues and, as the work progresses, the potential remedies.

Finally, one caveat we have with regard to our support for the new project is that the scope of the final deliverables should be kept limited – we would not welcome a process that led to a wholesale change of the existing trading arrangements (i.e. a “new NETA”) as this would be counterproductive (providing significant uncertainty to participants and potential investors) and unnecessary. Rather the focus should remain on targeted changes around the specific issues identified during the design phase. The timetable for this proposed project is intended to dovetail with developments on EMR, so the success of any proposals should be measured on their timeliness, efficacy and the direct market consequences.

We would be happy to discuss these points further with you, both at the roundtable on 25th March and in bilateral discussions.

Yours sincerely,

Statoil (U.K.) Limited

cc: Rachel Fletcher – Partner, Wholesale Markets