

## First meeting of Future Trading Arrangements Forum

First meeting of the Future Trading Arrangements (FTA) Forum to discuss the Forum's terms of reference and work programme.

Date and time of Meeting	2 July 2013, 1:30 – 5:00pm
Location	Ofgem 9 Millbank, London

### 1. Present

Chair: Rachel Fletcher (Ofgem)

Attendees:

- Andrew Claxton (APX)
- Anthony Price (Electricity Storage Network)
- Arthur Probert (Energy Services Partnership, UKDRA)
- Brian Galloway (Scottish Power)
- Chris Harris (RWEnpower)
- Clive Bowers (Commission for Energy Regulation)
- Colin Prestwich (Smartest Energy)
- Danielle Lane (DONG)
- Deirdre Powers (SSE)
- Goran Strbac (Imperial College London)
- Graeme Cooper (Fred. Olsen Renewables Ltd)
- Ian Pashley (National Grid)
- Andrea Pearce (EDF Energy)
- Melle Kruisdijk (Wartsila)
- Nick Haines (Good Energy)
- Nigel Cornwall (Energy Suppliers Forum, Green Generators Group)
- Paul Jones (EON)
- Philip Davies (Centrica)
- Rachel Crisp (DECC)
- Will Francis (DECC)
- Stuart Cotton (Drax Power)

Ofgem representatives:

- Andrew Wright
- Giuseppina Squicciarini
- Andrew Ryan
- Clémence Marcelis
- Emma Burns
- Grendon Thompson
- Steffen Felix

### 2. Apologies

- Robert Longdon (RenewableUK)
- Richard Hall (Consumer Focus)
- Jeremy Nicholson (Energy Intensive Users Group)

### 3. Welcome and Opening Remarks

3.1. Andrew Wright (Ofgem) welcomed the Future Trading Arrangements (FTA) Forum members, noting the significant announcements made last week, including Ofgem's capacity assessment and announcement of National Grid's consultation on a new balancing service as well as DECC's announcements on EMR. He noted the importance

of the FTA process in this context and the support from Ofgem's senior management team.

- 3.2. The aim of the Forum is to increase understanding of how the different policy initiatives slot together, and seeks to build a framework to increase the certainty in how wholesale trading arrangements may develop in the future. The Forum would also provide industry with a means for engaging with Ofgem on these topics.
- 3.3. Rachel Fletcher (Ofgem) noted that the Forum should support the development of a long term strategic vision. She noted the Smart Grid Forum as a successful example in bringing together a number of inter-related topics and engaging with a wide range of stakeholders.

#### **4. Presentation and discussion: Role of markets in low carbon electricity systems**

- 4.1. Goran Strbac gave a presentation about the role of markets in a world with high penetration of renewable generation. He outlined how the role of markets will be increasing in a low carbon era, particularly with respect to supporting cost effective integration of renewables and demand side response (DSR). He noted that ensuring that flexibility is valued in the market is a key challenge; especially as flexible capacity is displaced in the market by low carbon generation. He stated that in light of increased intermittency, and electrification of heat and transport, flexible generation will need to double its asset base in order to deliver the same amount of energy. He highlighted that there are opportunities for all types of flexible capacity – interconnection, smart network technologies, DSR, storage and flexible generation – to improve security of supply and affordability to consumers.
- 4.2. Goran highlighted the potential for cost savings through the use of DSR. He argued that realising this potential is challenging given that potential benefits of DSR are 'split' across a variety of areas and parties.
- 4.3. Goran highlighted the benefits of taking pan-European approaches to renewable generation, stating that savings of up to £30bn/year could be realised if renewable deployment is optimised, recognising that certain generation types may be better suited to certain parts of Europe – eg wind should be located where it's windy. Goran also suggested that a pan-European approach to capacity could result in between 100 and 160 GW of peaking plant not being required.
- 4.4. The Forum discussed whether flexibility is valued in the market. It was suggested that price signals are currently dulled, and that reflecting the true cost of balancing the system in cash-out prices should ensure that the market delivers flexibility. One stakeholder stated that there was a risk in sharpening cash-out signals without sufficient existing flexible capacity, as the result will be to penalise inflexible capacity. The Forum also discussed areas that might merit further consideration beyond the ongoing reform of cash out. One stakeholder suggested that while short term price signals are important, it is also important that investors can capture that value, both in the long and short term. One member suggested that it may be important to define what is meant by 'flexibility' as it could mean capacity which can respond quickly, or generators that can absorb changes in frequency or provide other ancillary services. Looking at ancillary services has been indicated as a potential area to consider (it was noted that a similar stream of work has been initiated in the Irish market to support the system in the light of the changes in the generation mix).
- 4.5. The forum noted the challenge of the 'split' benefit of DSR and that other practical barriers may exist, such as the lack of smart technologies, and the cost of competing in the market. One member cautioned against the risk of adopting a 'one size fits all'

approach to DSR policy, noting that consumers across GB are different and it is important that all consumers are catered for.

- 4.6. The Forum noted that EU and UK financial regulation of credit and capital requirements may influence participation in wholesale energy markets, and that this issue needed to be considered by the FTA Forum.

## **5. Presentation and discussion: Impact of EU Target Model on GB Electricity Trading Arrangements, Ian Pashley**

- 5.1. Ian Pashley presented an overview of the European Target Model (EUTM), and the challenges and opportunities that it could present for GB. Ian stated that the overall aim of the EUTM is to create a pan-European electricity market, in order to enable competitive and liquid market arrangements, and efficient management of risk.
- 5.2. Ian noted that the market arrangements in GB are sophisticated, and the aim of the EUTM is to bring all European electricity markets to the same level. However, he noted that this may imply changes to the market arrangements in GB.
- 5.3. Ian noted that the same principles of harmonisation are to be applied to the balancing arrangements, and this may imply changes for GB: A common merit order will allow overall optimisation of balancing resources using interconnectors; settlement may need to be harmonised. He suggested that standardised balancing products would be paid the same clearing price, and this would have implications for the domestic arrangements potentially leading to 'pay as clear'.
- 5.4. Ian suggested a number of issues that the Forum may wish to consider: the extent to which we will need to change our arrangements in response to the EUTM; possible implications of the bidding zones review; the importance of ensuring that there is sufficient liquidity; and ensuring consistency between the EUTM and policy developments in GB.
- 5.5. There was a discussion about the level of awareness of the EUTM across the represented organisations, and it was suggested that there was generally a good working-level awareness, but more senior members of organisations would benefit from using the Forum to consider the strategic implications of EU policy developments. One stakeholder highlighted that whilst GB may be less physically affected by the EUTM than more interconnected EU countries, the impact of European policies on the domestic market is set to increase significantly.
- 5.6. It was suggested that there may be a risk in GB opting only to ensure the 'bare minimum' of compliance with the EUTM, and there was a question of whether it would be better for GB to embrace some of the bigger changes which may come about as part of the EUTM. One stakeholder suggested the example of bidding zones, which may be an integral part to realising some of the benefits of the 'smarter market' that Goran had outlined in his first presentation. Others highlighted the need to consider the implications on GB of such an approach.

## **6. Presentation and discussion: Operation of the Forum, Giuseppina Squicciarini**

- 6.1. Giuseppina Squicciarini sought views on the proposed objectives of the Forum. There was a question as to the extent that the Forum can influence DECC's Electricity Market Reform (EMR), and the EUTM. Ofgem confirmed that the objective was not to try and influence the development of EMR, as DECC already has an industry expert group in place, but that it is important that the market arrangements fit EMR, and to ensure they are suitable for the post-EMR world. DECC expressed support to the need to consider the impact of EMR policy on future trading arrangements to ensure that EMR

delivers the desired policy outcomes. One stakeholder highlighted the risk that as EMR is developed for the current market, there might be a risk that the current arrangements are solidified as a result. It was suggested that there may be scope to feed into the longer term development of the EUTM, particularly with respect to aspects that are still under development.

- 6.2. There was agreement that it is important that all ongoing market developments are considered holistically, and that unintended consequences should be minimised.
- 6.3. Giuseppina outlined the proposed ways of working, noting the Forum would act primarily as an advisory body, while any decisions would remain with GEMA. It was suggested that there may be scope for GEMA to provide feedback on papers submitted from the Forum.
- 6.4. There was a discussion about sequencing of working groups, and whether Principles and Issues should be dealt with concurrently or sequentially. There was a general consensus on the need to consider interactions between the two streams of work.
- 6.5. The Forum discussed the ability of the members to engage with FTA, especially given EMR commitments, and the fact that the working groups are scheduled to take place over the summer, which may be difficult due to annual leave. Ofgem noted that resourcing may be a serious constraint, and that it would reconsider timings in light of this. Ofgem stated that it would seek to provide the majority of analysis, and that Forum members would be asked to comment on this analysis, rather than providing it. However input from industry would be very welcome. Ofgem agreed to review and confirm the timing of the working group meetings in the light of industry concerns on resources
- 6.6. The Forum discussed the approach to engaging external stakeholders, recognising the resource constraints faced by the industry. Rachel invited views from stakeholders on how Ofgem should communicate to the Forum and to the wider industry. Rachel agreed to report back to the next meeting on how external engagement was progressing.

## **7. Actions**

- 7.1. Ofgem to review the timeline of the FTA Forum and working groups, recognising concerns over the ambitious timeline proposed and stretched stakeholder resources over the summer.
- 7.2. Ofgem will report back to the September Forum on progress of the external stakeholder engagement work stream, but won't organise a separate working group on this.
- 7.3. The Principles and Issues working groups will run in parallel, but meetings will be organised on the same date to allow industry participants to attend both and explore interactions.
- 7.4. In addition to the seven broad Issues Themes identified in the Open Letter, the FTA Forum is to consider how EU and UK financial regulation of credit and capital requirements may influence participation in wholesale energy markets.
- 7.5. Ofgem has invited industry applications for the working groups.
- 7.6. Ofgem to produce a matrix of initiatives to discuss at the Forum.

## **8. Dates of next meetings**

- 8.1. The date of the 2<sup>nd</sup> Meeting of the Forum will be the afternoon of Monday 30 September at Ofgem's offices. Please note the revision to the originally proposed timing.
- 8.2. The date of the 3<sup>rd</sup> Meeting of the Forum will be the afternoon of Monday 18 November at Ofgem's offices. The 1<sup>st</sup> meeting of the working groups will be Wednesday 31 July at the Ofgem offices. Please note the revision to the originally proposed timing. Details of the working groups and how to apply will be posted on the Ofgem website.