

## **Future Trading Arrangements – 2<sup>nd</sup> Forum**

**Giuseppina Squicciarini**  
30/09/13

ofgem

1. Challenges and questions for FTA
2. Key principles
3. Moving from issues to workstreams
4. Next steps

# The market is changing and the challenges are significant



Change in generation mix (intermittency, plant retirement, new technologies)



European integration (European target model reforms, greater interconnection)



Government's Electricity Market Reform (capacity mechanism, CfDs/FiTs)



Financial regulation (REMIT, MiFID/MiFIR, EMIR)



Technological changes (smart metering, DSR capabilities, storage)

The 1<sup>st</sup> Forum agreed that these challenges should be considered holistically

## ...and raise strategic questions



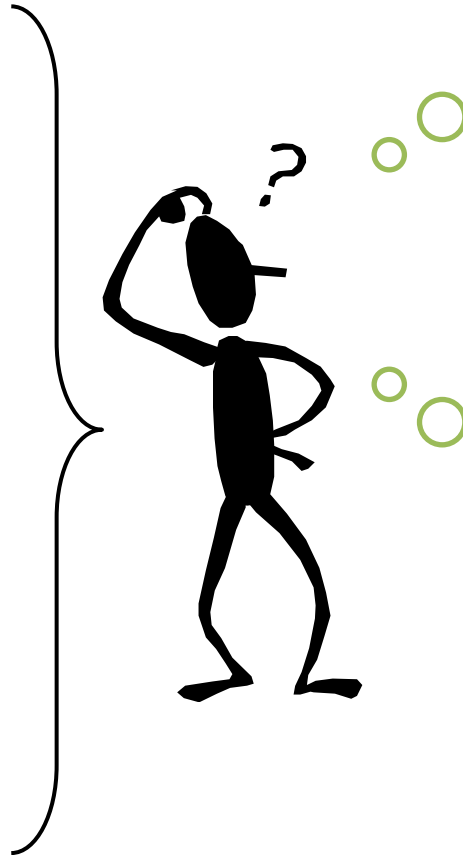
Contracts for Difference

Carbon Price  
Support



Emissions  
Performance  
Standard

Capacity Mechanism



(1) How do trading arrangements need to evolve to provide for the transition to EMR, implement the European Target Model and make the most of technological developments?

(2) What is the long-term role of the market and trading arrangements to deliver security of supply, and low-carbon and affordable energy?

# ...which the FTA process can help address

(1) How do trading arrangements need to evolve to provide for the transition to EMR and implement the European Target Model?

Identification of short-medium term issues (2014 +)

Ofgem's role: to ensure GB trading arrangements work for consumers in the context of Govt. Policy and EU legislation

(2) What is the long-term role of the market and trading arrangements to deliver security of supply, low-carbon and affordable energy?

Drawing a high level, longer term picture for the market (2025 +) – whilst recognising uncertainties

Ofgem's role: To facilitate the debate between key policy makers (including Government and ACER) and with industry

**Path dependency**  
in policy and regulatory choices means that the short-medium term affects the longer term picture

The FTA scoping phase aims at proposing a set of workstreams and establishing priorities

1. Challenges and questions for FTA
2. Key principles
3. Moving from issues to workstreams
4. Next steps

# Existing principles remain relevant, but reinterpretation possible for some

**Ofgem's Duty:** To protect the interests of existing and future consumers through promoting effective competition, wherever appropriate

		Status
1	<div>Competition where possible</div> <div>Competition-driven solutions should be encouraged where possible</div>	Unchanged
2	<div>Efficient dispatch</div> <div>The arrangements should result in the most efficient dispatch overall</div>	Unchanged
3	<div>Non-discrimination</div> <div>Equal treatment for all participants in the market with no undue discrimination for or against any participant in the market</div>	Unchanged
4	<div>Minimum regulatory oversight</div> <div>Market polices itself with ex post competition policy to deal with possible abuses</div>	Evolve: recognition of new regulatory requirements, eg REMIT

## ...and potential for new principles

		Status	
5	Market signals drive long-run investment	Investment should be driven by price signals based on trades between market participants	Evolve: subject to market failures
6	Polluter pays / risks allocated appropriately	Participants who cause costs should be exposed to them; risks should be borne by participants best able to manage them	Unchanged
7	Prices reflect scarcity	Prices in the energy market are efficient in that they reflect the full value of scarcity	New
8	European integration	Promoting European energy market integration in the interests of GB consumers	New

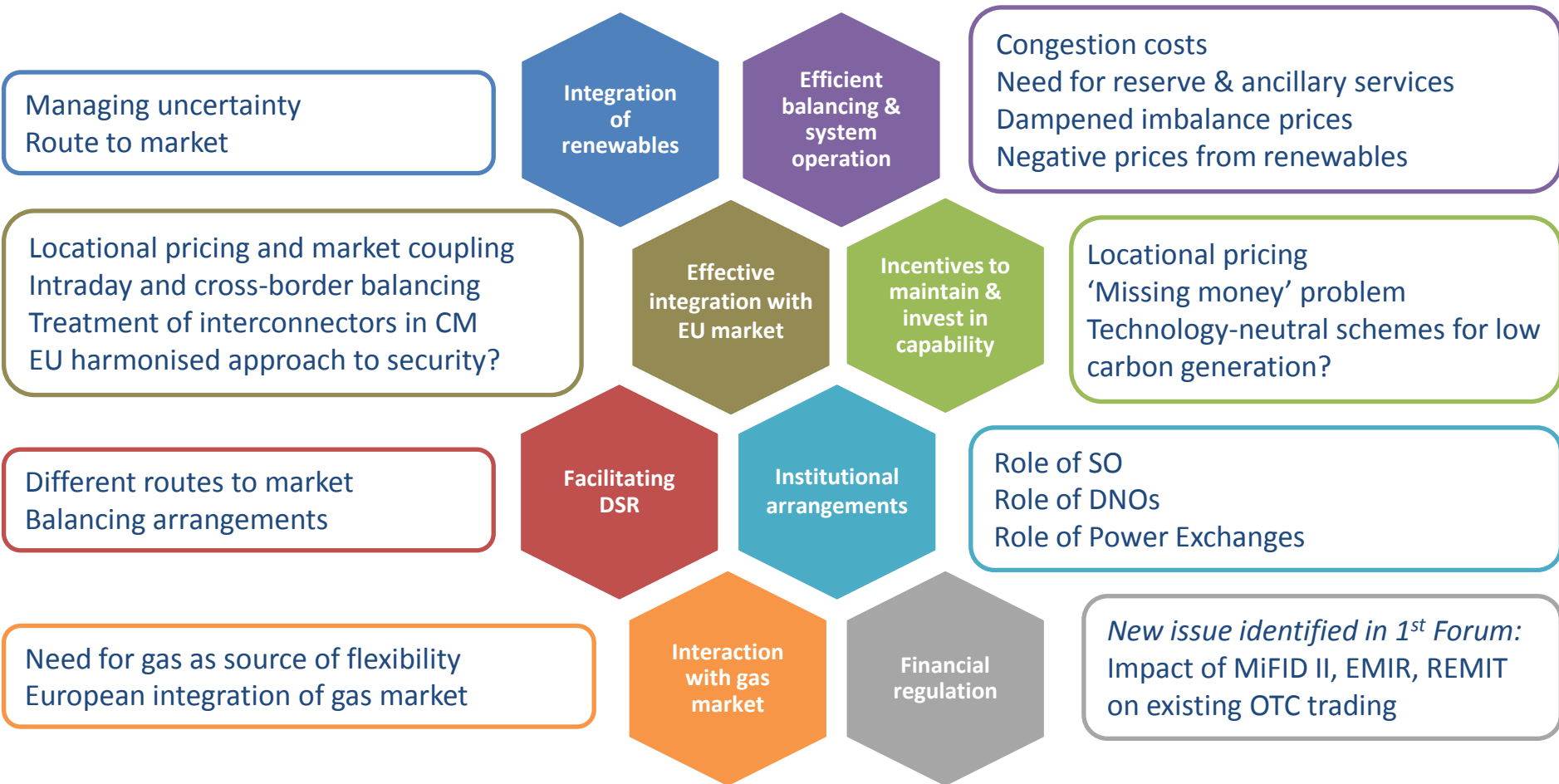


Do Forum members have comments on these principles?

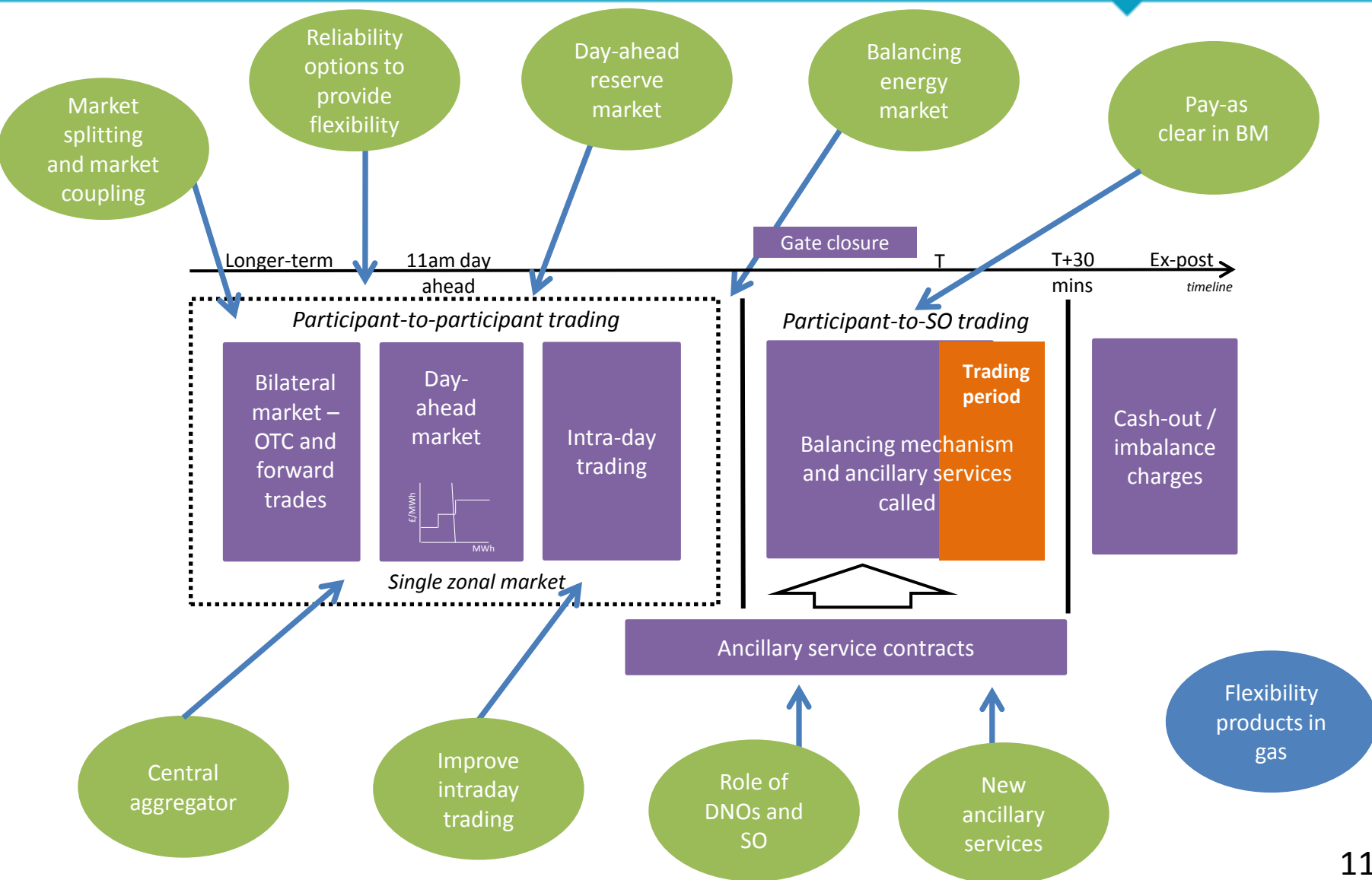


1. Challenges and questions for FTA
2. Key principles
3. Moving from issues to workstreams
4. Next steps

# The Working Group discussed the detail behind the issues identified by the Forum



# The Working Group identified a number of levers to address the issues...



...these levers can be grouped into  
potential workstreams

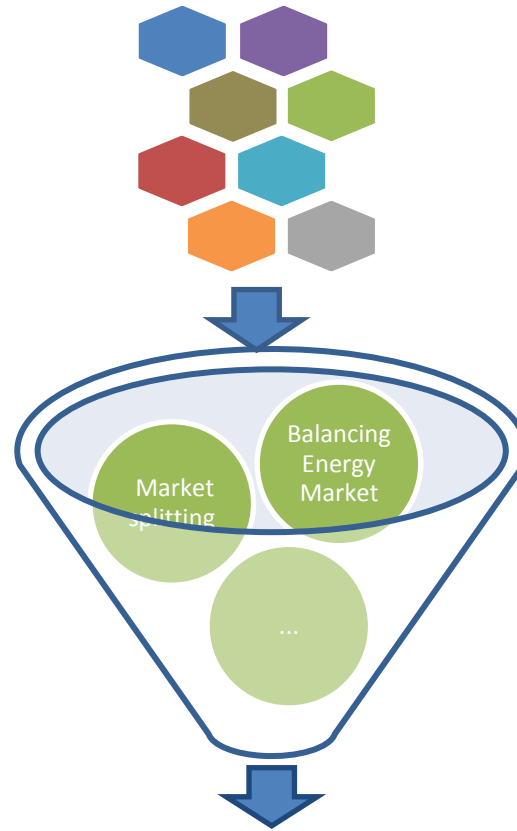
Issues



Levers



Potential  
workstreams



Locational  
Pricing

Enhanced Intraday  
Trading

Ancillary services, wider  
balancing and reserve review

Impact of Financial  
Regulation on TA

Institutions

Flexibility in  
gas markets

Longer term market  
arrangements

1

## Locational Pricing

...to integrate with EU and ensure best use of existing network resources

### Driver

Drivers for this workstream come from requirements of EU Target Model as well as from likely further increase of congestion costs in GB

### Content

Workstream to examine the merit and the potential options of introducing locational pricing in GB

### Linkages

CACM implementation and ACER bidding zones workstream



Do Forum members have comments on this workstream?

2

## Enhanced Intraday Trading

...to support renewable generation and DSR  
participation in trading

### Driver

Growing share of  
intermittent  
generation and DSR  
which need  
opportunities to trade  
close to real time

### Content

Workstream to  
examine further  
measures to promote  
liquidity close to real  
time (eg Balancing  
Energy Market) and to  
provide tools to  
manage risks

### Linkages

CACM implementation  
and NWE intraday  
initiative



Do Forum members have comments on this workstream?

# Ancillary services and reserve review workstream

3

Ancillary services,  
wider balancing  
and reserve review

...to ensure system flexibility given increased amount  
of intermittent generation on the system

Driver

Change in generation  
mix will put pressure  
on the system which  
will need to become  
more flexible

Content

Workstream to  
consider options to  
enhance system  
flexibility, including,  
for example, new  
ancillary services and  
an organised market  
for reserve

Linkages

EU Balancing Network  
Code



Do Forum members have comments on this workstream?

4

## Impact of Financial Regulation

...to understand how trading arrangements and trading venues in GB market may need to evolve

### Driver

MiFID and EMIR could have significant impact on OTC trading, pushing towards exchange-based trading. Similar direction as a result of Market Coupling

### Content

Workstream to assess the impact of MiFID, EMIR and REMIT on GB trading.  
Consideration of impacts of OTC vs PX trading and liquidity over different timeframes

### Linkages

Ongoing development of MiFID and EMIR



Do Forum members have comments on this workstream?



5

## Flexibility in gas

...to understand and manage the knock on effect on the gas market from greater need for flexibility in electricity

### Driver

Gas turbines likely to play major role in providing flexibility needs in electricity market and may result in higher flexibility needs on gas market (eg higher value for linepack, greater intraday flexibility)

### Content

Workstream would consider the merit and the possible options for greater flexibility in gas

### Linkages

EU Gas Target Model



Do Forum members have comments on this workstream?

6

## Institutions

...to establish the need for institutional changes as a result of national and European reforms

### Driver

Evolving TA may require different roles for the SO, DNOs, and PXs. SO already has a larger role to play under EMR. Changing role for PXs through EU TM and potentially through financial regulation. DNOs play more important role due to embedded generation and DSR

### Content

Workstream to assess roles of key institutions and governance arrangements in the future

### Linkages

EMR Institutional framework and ITPR



Do Forum members have comments on this workstream?

# Longer term market arrangements workstream

7

Longer term market  
arrangements

...to promote greater investor certainty by identifying  
“no regrets” policies, path dependencies and ensuring  
adaptability of arrangements in the face of change

Driver

Path dependency –  
short-term choices  
affect long-term  
options and vice-versa

Content

Workstream aims to  
promoting a debate  
on a longer term  
vision for the GB  
market

Linkages

ACER’s work on long-  
term vision for EU  
energy market and  
HMG’s long-term  
vision of EMR



Do Forum members have comments on this workstream?

1. Challenges and questions for FTA
2. Key principles
3. Moving from issues to workstreams
4. Next steps

# Next Steps

