

Future Trading Arrangements Forum

2nd Meeting of the Issues and Principles Working Groups of the Future Trading Arrangements Forum	Date and time of Meeting	13.00, 30 September 2013
	Location	Ofgem, 9 Millbank, London

1. Present

Chair Rachel Fletcher

Attendees

- Arthur Probert (Energy Services Partnership)
- Chris Harris (RWEnpower)
- Colin Prestwich (Smartest Energy)
- Deidre Powers (SSE)
- Ian Moss (National Grid)
- Mark Cox (EDF)
- Matt Golding (National Grid)
- Melle Kruisdijk (Wartsila)
- Nick Haines (Good Energy)
- Olaf Islei (APX)
- Paul Jones (E.On)
- Phil Hicken (DECC)
- Philip Davies (Centrica)
- Rich Hall (Consumer Focus)
- Richard Sweet (Scottish Power)
- Robert Longdon (Mainstream Renewable)
- Stephen Powell (Commission for Energy Regulation)
- Stuart Cotton (Drax)

Ofgem representatives

- Andreas Flamm
- Andrew Ryan
- Anjli Mehta
- Boaz Moselle (FTI)
- Elaine Griffith
- Emma Burns
- Giuseppina Squicciarini
- Grendon Thompson
- Jason Mann (FTI)
- Steffen Felix
- Stephen Lee

Apologies

- Anthony Price (Electricity Storage Network)
- Graeme Cooper (Fred. Olsen Renewables Ltd)
- Nigel Cornwall (Energy Suppliers Forum / Green Generators Group)

2. Welcome and opening remarks

2.1. Rachel Fletcher opened the meeting by welcoming attendees, and thanked them for their engagement in the Future Trading Arrangements (FTA) process to date. She noted that the meeting would provide a recap of the work carried out by the working groups on the underlying principles of the electricity market, and how these principles are impacted by the challenges facing the electricity market.

3. Challenges and questions for FTA

- 3.1. Giuseppina Squicciarini (Ofgem) noted that challenges facing the market were driven by a changing generation mix, new technologies, Electricity Market Reform (EMR) and the European Target Model. These challenges created strategic questions about how the market should evolve from 2014 onwards, as well as longer term strategic questions about where the market should be from 2025 onwards. She acknowledged that there is a lot of uncertainty about the electricity market in 2025, but suggested that there is likely to be a path dependency associated with the electricity market, and choices made in the shorter term may affect the choices in the longer term. Ofgem's role is to help ensure that the GB trading arrangements work for consumers in the context of Government policy and EU legislation in the short and medium term, and to facilitate the debate between key policy makers (including Government and the Agency for the Cooperation of Energy Regulatory) and with industry about the longer term vision for the market.
- 3.2. There was a discussion about whether the FTA process should focus on drawing a high-level, long-term picture for the market. There was agreement that the FTA process should focus on changes needed and ensuring consistency of ongoing project in the short and medium term, but that the creation of a longer term vision could provide useful context for the short term changes and help ensuring consistency of choices. There was a question about what would result from setting out a long term vision for the market, and how this would be embedded in the decision-making process.
- 3.3. There was a discussion about the number of new and changing actors in the electricity market, and it was suggested that the FTA process could be used to consider how these actors should fit together. Another stakeholder suggested that the FTA process could be used to clarify responsibilities between policy-makers, with the development of a statutory statement of responsibilities.
- 3.4. Rachel Fletcher noted that the FTA was still in a scoping phase so the scope and purpose was still open for discussion, but that it had been set up in response to calls from stakeholders for a focal point for matters relating to the electricity trading arrangements to build consensus on the direction of travel for the electricity wholesale market and seek to provide greater certainty for industry stakeholders.

Discussion of principles

- 3.5. Giuseppina noted that the working group agreed that while the principles remained largely relevant some would benefit from reinterpretation or evolution. She outlined the first principle - that '**competition-driven solutions should be encouraged where possible**' - and suggested that it remained valid. There was a question about why the principle is that competition-driven solutions should be encouraged where 'possible' rather than 'appropriate,' as this would be more in line with Ofgem's statutory duties. Ofgem noted that this principle reflected that competition should be the default solution for the electricity trading arrangements, while Ofgem's duties reflected a balance between competition where appropriate and competition where possible across a range of sectors, including networks.
- 3.6. Giuseppina noted that the working group agreed that the principle of '**efficient dispatch**' remained appropriate, and it was agreed that this principle should be interpreted in an economic sense: promoting overall minimisation of costs while recognising technical constraints. The group agreed that the principle of efficient dispatch should remain valid in the future.
- 3.7. The working group agreed that the principle of '**non-discrimination**' remained appropriate.

- 3.8. There was a discussion about the principle of **'minimal regulatory oversight'**. Giuseppina noted that at the time of NETA it was envisioned that increased levels of competition would mean that the market would police itself, and only ex-post competition policy would be required to deal with potential abuses. There was a discussion about whether an evolution of this principle was necessary in light of new regulatory requirements such as REMIT. One stakeholder suggested that the principle should reflect that there should be 'proportional' regulatory oversight. Other stakeholders suggested that although the context was changing, the principle was still desirable in the long-term. The majority of the group agreed that the principle should be changed to reflect that there should be 'proportional' regulatory oversight in light of the context of increasing regulatory oversight in the electricity market.
- 3.9. The group discussed the principle of **'market signals drive investment'**. The group recognised that in recent years interventions to support wider policy objectives or market failures may mean that market signals are no longer the sole driver of long-run investment. It was agreed that it was desirable to maintain the principle that market signals should be robust enough to drive investment in the absence of regulatory intervention, while recognising the need to address possible market failures.
- 3.10. There was agreement that the principle of **'risks being borne by those best able to manage them'** in the electricity market remained appropriate, but it was noted that it was important that market participants had the appropriate tools to manage risks.
- 3.11. Giuseppina noted that the principle of **'prices should reflect scarcity'** had been added to reflect the growing prominence of security of supply concerns in recent years. It was suggested that the principle should be that prices should reflect market conditions more generally, including when there was scarcity.
- 3.12. There was agreement that the principle of **EU Integration**, which suggests that European energy market integration should be promoted in the interests of GB consumers, was appropriate.

4. The integration of electricity markets across the EU

- 4.1. Alberto Pototschnig from the Agency for the Cooperation of Energy Regulators (ACER) highlighted the pillars of the internal energy market: efficiency/competitiveness, sustainability and security of supply. He noted that the internal energy market would deliver greater choice and better value to consumers, and it was essential to address barriers in the wholesale market in order to achieve this.
- 4.2. Alberto noted that achieving an internal market involves setting out a vision, or a Target Model, developing rules in line with this, and implementing these rules across member states. He noted that there were a number of regional pilot projects underway that would allow feedback from implementation to rule making, such as the North-West Intra-day project led by Ofgem.
- 4.3. Alberto outlined the main themes for ACER in 2014: Market Integration Target; Wholesale Market Integrity and Transparency; the infrastructure challenge; and future challenges including the renewable generation integration. He noted that the European Commission was expected to issue communication about its longer term (post 2020) vision for the energy market in October 2013. Although these projects are currently voluntary they will have significant implications for Member States. The rules that these projects are currently testing (i.e. network codes) are expected to become legally binding and enter into force over the next twelve months.
- 4.4. There was a discussion of the role of capacity mechanisms in the European energy market, and it was noted that there are a number of European markets that have or are considering the introduction of some form of capacity mechanism.

5. Moving from Issues to Workstreams

- 5.1. Giuseppina noted that the working group had discussed the detail behind the issues identified by the Forum and identified relevant policy levers. She introduced the seven policy workstreams in which the issues and policy levers could be grouped.
- 5.2. Giuseppina noted that key drivers for the **locational pricing workstream** came from European requirements as part of the Capacity Allocation and Congestion Management (CACM) to consider the case for bidding zones in GB, and increasing constraint costs due to insufficient locational signals in the market. It was noted that the Integrated Transmission and Planning Requirements (ITPR) workstream was a key interaction. There was broad agreement that this FTA workstream could consider what locational pricing means from a GB perspective.
- 5.3. **The enhanced intra-day trading workstream** could look at ways to improve trading at the intra-day stage, in particular to support intermittent and other smaller market players such as DSR. It was noted that the North West Intra-day project, and DECC's route to market work were key interactions. There was general agreement that a workstream to investigate potential solutions to enhance intra-day trading would be worthwhile.
- 5.4. **The proposed ancillary services workstream** would consider options to enhance system flexibility, including, for example, new ancillary services and an organised market for reserve. There was agreement that a workstream to consider potential new ancillary services and their impact on the market could be worthwhile.
- 5.5. **The impact of financial regulation workstream** would assess the impact of Markets in Financial Instruments Directive (MiFID), European Market Infrastructure Regulation (EMIR) and the Regulation on Energy Market Integrity and Transparency (REMIT) on GB trading. There was a discussion about whether this workstream should be a workstream itself, or whether it should be part of the context within which other work is based. One stakeholder suggested that these regulations represented a significant departure from NETA, and was therefore worth considering as a separate workstream. It was agreed to keep this workstream separate whilst acknowledging the close interactions with other workstreams, and use the next Working Group and Forum meetings to scope out the work required in this area further, and to decide how this workstream may be taken forward.
- 5.6. Giuseppina outlined the **flexibility in gas workstream**, noting that the working group agreed flexibility was the key interaction between the gas and electricity markets. The interaction between emergency arrangements was raised in the Forum but it was noted that these were being dealt with as part of already established projects.
- 5.7. The **institutions workstream** could examine the need for institutional change as a result of national and European reform, market and technological developments, and the evolving roles of market actors. The DECC and Ofgem Smart Grids Forum was noted as a parallel forum which will consider how electricity network companies will address challenges as they play their role in the decarbonisation of electricity supply. It was suggested that there may be some issues not currently captured by the Smart Grids forum that could be addressed by the FTA process.
- 5.8. The **longer-term arrangements workstream** would aim to promote greater investor certainty by identifying 'no regrets' policies, path dependencies and ensuring adaptability of arrangements in the face of change. There was agreement that a long-term vision would provide context for choices made in the short and medium term.

6. Conclusions and next steps

- 6.1. Rachel noted that the intention of the November Forum would be to explore potential workstreams in further detail, and to prioritise them. She noted that the Forum's recommendations on workstreams would feed into the GEMA debate on FTA, but that the Forum does not replace the normal consultation process, so there would be wider industry consultation once the first stage of the FTA process had concluded.

7. Actions

- 7.1. Stakeholders are requested to provide comments on the draft stakeholder engagement plan and FTA interactions matrix to Andrew.Ryan@Ofgem.gov.uk by 14th October.

8. Date of next meeting

- 8.1. The next working group will take place on 30th October, and the Forum will take place on 18th November.