

Future Trading Arrangements Forum, 3rd Meeting

Minutes from the 3 rd Meeting of the Future Trading Arrangements Forum	Date and time of Meeting Location	18 November 2013, 2.00pm – 4.30pm Ofgem, 9 Millbank
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1. Present

Chair	Emma Kelso (Ofgem)
Present	Alan Goodbrook (Good Energy) Audrey Nugent (Chemical Industry Association) Chris Harris (RWEnpower) Danielle Lane (DONG) Deirdre Powers (SSE) Gareth Miller (Energy Suppliers Forum/Green Generators Group) Ian Moss (National Grid) Mark Cox (EDF) Melle Kruisdijk (Wartsila) Olaf Islei (APX) Paul Jones (EON) Philip Davies (Centrica) Rachel Crisp (DECC) Stephen Powell (CER)
By telephone	Jill Caine, Dr (Electricity Storage Network Ltd) Arthur Probert (Energy Services Partnership) Brian Galloway (Scottish Power)
Ofgem representatives	Andrew Ryan Andreas Flamm Anjali Mehta Elaine Griffith Grendon Thompson Giuseppina Squicciarini Jason Mann (FTI) Rene Le Prou (FTI) Steffen Felix
Apologies	Anthony Price (Electricity Storage Network) Colin Prestwich (Smartest Energy) Graeme Cooper (Fred Olsen Renewables Ltd) Matt Golding (National Grid) Richard Hall (Consumer Focus)

2. Welcome and introduction

- 2.1. Emma Kelso (Ofgem) welcomed the FTA Forum members.
- 2.2. Giuseppina Squicciarini (Ofgem) provided a recap of the progress to date. She noted five key changes affecting the energy sector (changes in the generation mix, European integration, EMR, financial regulation, technological changes) and highlighted that the Forum's objective was to consider the best way for the trading arrangements to evolve to adapt to this new context. The resulting strategic questions which the FTA Forum should address were:
 - 1) How do trading arrangements need to evolve to provide for these changes?
 - 2) What was the long-term role of the market and trading arrangements to deliver security of supply and low-carbon and affordable energy?
- 2.3. For the short to medium term questions, she clarified that the basis of the discussion was that existing trading arrangements were the starting point and that European and EMR reforms were given. Furthermore, the Forum could be a facilitator of the long term debate.
- 2.4. She noted that the objective of this meeting was to seek the Forum's views on scope priorities of the workstreams, review the role of the FTA Forum and to provide views on a way forward.

3. Workstream scope and criteria for prioritisation

- 3.1. Giuseppina outlined the seven workstreams identified to date and how they interacted. Some workstreams (locational pricing, managing intermittency by participants, and ancillary services and balancing review) could have more specific policy implications, while others could have wider policy implications or provide important context. An illustration was provided to show how each workstream may address several of the challenges identified.
- 3.2. Giuseppina asked for Forum views on what was feasible to take forward, recognising resource constraints in Ofgem and in the industry. Three criteria were used to prioritise which workstreams may need to be taken forward first. These criteria were legal requirement, materiality and urgency. Each workstream lead from Ofgem then outlined their workstream and proposed initial ratings against the three criteria for further Forum discussion.
- 3.3. There was a discussion about proposed workstream 1, **locational pricing**. It was noted that the responsibilities for fulfilling the Capacity Allocation and Congestion Management (CACM) Network Code's requirements to assess bidding zones configurations have not yet been confirmed. These responsibilities could influence how the workstream runs and were expected to be confirmed by early 2014. One stakeholder noted that the uncertainty of market splitting was holding up investment decisions and advocated progressing the workstream for this reason. The interaction of bidding zones with other Member States was raised. The ongoing bidding zones pilot study, which GB was not directly part of, was noted. One stakeholder highlighted that there would be political implications of bidding zones. Another responded that this forum should consider the technical design of trading arrangements independently of political considerations. The general view was that this workstream would be a high priority.
- 3.4. The working group then discussed workstream 2, **managing intermittency by market participants**. One stakeholder highlighted that urgency was a matter of perspective and that, to intermittent generators, this workstream would be highly

urgent. The longer term aspect of intermittency – adequacy – was also highlighted. The European target model's requirements with respect to balancing responsible parties were raised. One stakeholder noted that balancing costs were accounted for in CfDs and thus the end-consumer would be affected by this. A range of views were expressed, with some advocating raising the priority of this workstream to medium-high.

- 3.5. Workstream 3, **ancillary services, balancing & reserve review**, was discussed. One stakeholder noted that the scope of this workstream was very wide and that it would require different experts to be involved in each element. It was highlighted that National Grid were currently doing work in this area. There were a range of views on how to approach the content of this workstream but little disagreement with the proposed 'medium' ratings for necessity, materiality and urgency.
- 3.6. There was a discussion about the content of the proposed workstream A, which would look at the **impact of financial regulations** on the energy market. There were mixed views on this, particularly on the materiality of the workstream, where some stakeholders highlighted that the collateral requirements were highly material. A point was made that there may be little that a workstream could do with regards to this. A number thought this was an important contextual piece but that a workstream was not needed. One Forum member noted that financial regulations may deter trading entities such as aggregators. Emma noted that a team at Ofgem was keeping abreast of these developments and could keep the Forum informed of financial regulation developments, even if this workstream was not progressed. Overall, the low priority rating seemed acceptable.
- 3.7. Proposed workstream B, **flexibility in gas markets**, was outlined, highlighting the question of whether current gas flexibility would be sufficient in future. It was noted that National Grid has some ongoing work in this area coming out of the recent RIIO price control. No one contested the low priority rating.
- 3.8. It was noted that the intention of workstream C, **institutions**, would be to consider whether market changes could lead to changes in institutional roles, or whether changes in institutional roles could lead to changes in the market. There was no comment from the Forum.
- 3.9. There was a discussion on workstream D on **longer-term market arrangements**. The intention of this workstream would be to ensure that any short term changes to the market were in line with the overall longer term vision for the energy market and also to ensure that market signals would be sufficient to drive long run investment in a future scenario of no capacity mechanism. One stakeholder suggested the capacity mechanism resulted from market failure and that an annual market assessment should be included. Increased levels of uncertainty were highlighted for the longer-term workstream. Several stakeholders were of the view that this would be a lower priority than workstreams 1 to 3.
- 3.10. Some stakeholders questioned why consumer interaction, affordability and efficiency were not highlighted in the workstreams, particularly workstream D. Emma confirmed that these were key priorities.

4. Prioritisation summary and timings

- 4.1. Giuseppina presented a summary table of workstreams rated against the three criteria and given a priority of high, medium or low. Based on this, workstream 1 (locational pricing), workstream 2 (managing intermittency), workstream 3 (ancillary service review) and workstream D (long-term market view) could be considered as high priority. She asked the Forum which workstreams should go forward, noting that a

workstream rated as low priority did not mean that it was unimportant or that the Forum would not need to look at those issues at some stage.

- 4.2. The Forum broadly agreed with the prioritisation presented. The two exceptions were: mixed views as to raising the priority of workstream 2 and several opining that workstream D was less of a priority than workstreams 1 to 3.
- 4.3. Following on from the prioritisation discussion, Giuseppina explained the potential for a phased/staggered approach to the workstream timings and requested the Forum's views.
- 4.4. Key feedback from the Forum participants was that:
 - The staggered approach may be useful in terms of resourcing as industry resources were constrained in 2014, particularly at working level.
 - Ofgem resources may be the critical constraint. Ofgem would need to be able to complete the proper analysis. For example workstream 1 was a big design change and should be have a full cost benefit analysis.
 - WS 3 encompassed so much that it might take a long time to reach an output. Therefore delaying it may not be wise.
 - If any workstreams were to run concurrently, it should be workstreams 2 and 3 as these were the most interrelated.
 - There was a proposal resulting from the above to start all three workstreams concurrently but to let workstreams 2 and 3 proceed with less urgency than workstream 1, i.e. to stagger the resource but not necessarily the start date.
- 4.5. Giuseppina summarised that the Forum's feedback appeared supportive of a part-staggered approach and to re-examine the scope of the long term workstream.

5. Future role of the FTA Forum and workstream resourcing

- 5.1. Giuseppina outlined options for the future governance of FTA. She highlighted that the FTA Forum input has been very helpful and that Ofgem were keen to continue with it, but were also aware of resourcing constraints. The discussion was based on the assumption that one or more workstream would be progressed. There was general support for continuing the Forum but a range of views on the workstreams. There was general support for regular working group meetings which could run monthly but the approach would need to be flexible.

6. Next steps

Giuseppina noted that, on the basis of the Forum's discussion, Ofgem would discuss future trading arrangements with GEMA, and, depending on GEMA's decisions, Ofgem would produce a next steps document in early 2014. If approved by GEMA, the second stage of the FTA work would start shortly thereafter, on the basis of the prioritised workstreams.