ofgem

Minutes

Future Trading Arrangements, Issues and Principles Working Group

Combined 3rd Meeting of the Issues and Principles Working Groups of the Future Trading Arrangements Forum	Date and time of Meeting	30 October 2013, 2.00pm – 4.30pm
	Location	Ofgem, 9 Millbank

1. Present

Chair	Giuseppina Squicciarini (Ofgem)
Present	Barbara Vest (Energy UK)
	Bill Reed (RWE npower)
	Colin Prestwich (Smartest Energy)
	Ester Sutton (E.On UK plc)
	James Anderson (Scottish Power)
	Dr Jill Cainey (Electricity Storage Network Ltd)
	Katharine Clench (National Grid)
	Mark Cox (EDF)
	Mark Couldrick (Elexon)
	Melle Kruisdijk (Wartsila)
	Michael Dodd (ESB International Ltd)
	Nick Geddes (DECC)
	Olaf Islei (APX, Inc.)
	Sarah Owen (Centrica)
	Stephen Powell (Irish regulator)
	Cem Suleyman (Drax)
Ofgem representatives	Adam Lacey
	Andrew Ryan
	Andreas Flamm
	Elaine Griffith
	Emma Burns
	Grendon Thompson
	Jason Mann (FTI)
	Leonardo Costa
	Lewis Heather
	Rene Le Prou (FTI)
Apologies	Arthur Probert (The Energy Services Partnership Ltd)
	Ben Hall (Cornwall Energy)
	Ebba Phillips John (DONG Energy)
	Emma Pinchbeck (Micropower Council)
	Lisa Waters (Waters Wye Associates)
	Nick Frydas (Mott MacDonald Group Ltd)
	Tom Bent (SSE)

2. Welcome

2.1.   Giuseppina Squicciarini (Ofgem) welcomed the FTA Working Group members for their attendance and input so far. She noted that discussions in previous meetings had focused on challenges and issues facing the market, and potential policy levers that could be used to address them. She noted that a discussion at the last Forum meeting had organised potential levers into seven workstreams. She reminded the group that all materials presented were intended to provoke discussion, and did not represent Ofgem views.

2.2.   She noted that the objective of the meeting was to further develop the scope of the proposed workstreams.

3. Workstream scoping

3.1.   Jason Mann (FTI Consulting) outlined the seven proposed workstreams for discussion, suggesting that some workstreams (locational pricing, managing intermittency by participants, and ancillary services and balancing review) could have specific policy implications, while others could have wider policy implications or be more informative in nature. Interactions between the workstreams were noted, for example that the impact of financial regulations (workstream A) could impact on how participants trade in the market to manage intermittency (workstream 2). The governance structure of the FTA Forum would allow these interactions to be captured.

3.2.   Jason outlined the five key steps that could be used to determine the terms of reference for each of the workstreams: the key drivers of the issue should be clearly stated; the materiality of the issues should be assessed, using quantitative analysis where possible; detailed design and scoping of policy options should be carried out; the approach to assessment of options should be detailed; and the final output should be delivered. It was suggested that the outputs from different workstreams could be different, potentially ranging from a study assessing the materiality of the issue, to a worked up policy recommendation to the Forum.

3.3.   Jason then outlined proposed high-level terms of reference for each of the seven workstreams.

3.4.   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 are expected to be confirmed by early 2014. It was noted that this workstream could give industry more involvement in the development of the framework for assessing locational pricing. It was suggested that the workstream could allow consideration of the detailed implications of locational pricing, as well as a more general assessment of the pros and cons.

3.5.   The working group discussed workstream 2, **managing intermittency by market participants**. It was suggested that the output of the workstream could be a study of the issues to inform the Forum on possible policy options, rather than the development of specific policy recommendations.

3.6.   Workstream 3, **ancillary services, balancing & reserve review**, was discussed. Interactions with workstream 2 were noted, and one stakeholder suggested that if market participants are able to manage intermittency effectively, then changes to the system operator's balancing role may not be necessary. It was suggested that a move to locational pricing could have implications for how the system operator balances the system.

3.7.   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. It was suggested that it might be important to consider the implications that new regulations would have for trading. A study looking at the wider implications of how financial regulations on the energy market could be used to inform the forum's decisions on other workstreams, and the industry more generally.

3.8.   Proposed workstream B, **flexibility in gas markets**, was outlined. Interactions with EU Gas Target Model were noted, and an intra-day balancing market for gas was highlighted as one specific policy lever.

3.9.   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. It was suggested that the workstream would focus on GB institutions.

3.10.   There was a discussion on workstream D which would aim to draw up the **high-level picture for the GB electricity market** for 2025 and beyond, using the FTA Forum principles as a focal point. The intention of this workstream would be to ensure that any short term changes to the market were in line with the overall vision for the energy market. Some stakeholders questioned the benefit of this workstream in light of political uncertainty around longer term market arrangements. One stakeholder suggested that it may be necessary to assume that the over-arching NETA market structure would remain in place as context to this workstream.

4. Prioritisation

4.1.   Jason Mann outlined the three criteria for determining an initial prioritisation of the workstreams for discussion. The first criterion is necessity, as some workstreams are driven by binding European Target Model network codes. The second criterion is an estimate of the size of the issue that the workstream would seek to address. The third criterion is the urgency of the issue. Based on these criteria, 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. He said that based on the criteria set out, there remained a question as to whether workstream A (financial regulations) and workstream C (institutions) should proceed.

4.2.   The workgroup suggested that industry resource may be constrained due to the need to engage with Electricity Market Reform (EMR) and the development of the European Network Codes, and that this should be a consideration when deciding which workstreams should be progressed, and what the associated scope and timelines should be. It was agreed that proceeding with a workstream would not necessarily have to mean completion of all steps set out as the proposed terms of reference. For example, a workstream could commit to a study to assess the materiality of the issue only, before a decision is made to progress the workstream to develop specific policy options.

5. Next steps and way forward

5.1.   Giuseppina outlined the provisional next steps for the FTA process. The next FTA forum meeting is scheduled for 18 November, with a GEMA decision on the scope due in December. Prioritised workstreams would then be advanced in 2014.

6. Date of next meeting

6.1.   The next FTA Forum meeting is scheduled for 18 November.