

## Future Trading Arrangements Forum, 5<sup>th</sup> Meeting

Minutes from the 5 <sup>th</sup> Meeting of the Future Trading Arrangements Forum	Date and time of Meeting	14 November 2014 12pm – 4pm
	Location	Ofgem, 9 Millbank

### 1. Present

Chair	Mark Copley (Ofgem)
Present	Alex Coulton (Renewable UK) Andrew Claxton (APX) Arthur Probert (Energy Services Partnership) Bill Reed (RWEnpower) Brian Galloway (Scottish Power) Colin Prestwich (Smartest Energy) Deirdre Powers (SSE) Elizabeth Culwick (Electricity Storage Network) Fiona Navesey (Centrica) Graeme Cooper (Fred Olsen Renewables Ltd) Ian Moss (National Grid) Mark Cox (EDF) Nick Haines (Good Energy) Paul Jones (EON) Phil Hicken (DECC) Robert Longdon (Renewable UK) Stephen Powell (CER) Stuart Cotten (Drax Power)
Apologies	Melle Kruisdijk (Wärtsilä)
Ofgem representatives/observers	Andrew Ryan Chiara Redaelli Emma Burns Gareth Davies Grendon Thompson James Earl Mark Copley Peter Hicks Rachel Fletcher

**Welcome and introduction**

**Mark Copley opened the meeting and initiated introductions from around the table. He outlined the plan for the meeting to share our thoughts on future challenges to market arrangements and to hear industry views on what can be done differently, based on experiences from other markets.**

**Future challenges to market arrangements**

**Andrew Ryan outlined Ofgem's proposed framework for the initial assessment of future challenges to market arrangements.**

**Mark Copley put a question to the Forum, to be considered later in the meeting, as to how we can look to provide solutions to address the challenges that the framework outlines.**

- One stakeholder asked if this assessment represented a final assessment.

*Andrew Ryan answered that this is a stylised assessment to present to the Forum to prompt discussion, not a finalised assessment. It is likely to be subjective and as such we welcome any challenge of the methodology.*

- Stakeholders stressed that security of supply needs to be defined in the framework, as it can be defined in different ways. For example, the Capacity Market is included against 'Secure Energy Supply' but it is not designed to be low carbon and brings forward fossil fuel generation. It was also highlighted that the framework needs a definition of low carbon supply.
- There was some discussion of the placement of the Capacity Market in the framework, where one stakeholder stated that the Capacity Market is not designed to deal with intermittency.
- One stakeholder questioned where CfDs are included in the framework.

*Andrew Ryan confirmed that they are included in the scope of the Intermittency challenge.*

- One stakeholder suggested that the framework should also look at the interactions between the different challenges, ie how the Capacity Market could cause problems for European Integration.
- One stakeholder asked for further detail on the specific issues within each of the challenges.

*Andrew Ryan answered that these will be explored further through the international experiences to be presented later in the meeting.*

- Stakeholders questioned how close we can (realistically) get to a green light against all the assessment indicators and stressed that the work needs to know what it seeks to achieve against this framework.

*Mark Copley agreed that it is important that we know what success looks like.*

- Stakeholders questioned the assumptions that underlie the framework, principally whether the framework assumed existing market rules or post-EBSCR implementation and the assumptions made about implementation of European Network Codes (ENCs).

*Andrew Ryan clarified that the framework assumes both implementation of EBSCR and implementation of CACM, Forwards and Balancing ENCs.*

*Mark Copley reiterated the aim of this framework, which is to try and take a step back and look at big issues over the medium term (a 5-10 year timeframe).*

- One stakeholder asked if the EU integration challenge goes beyond gas and electricity to look at, for example, carbon taxes.

*Mark Copley answered that the framework is principally focused on 'closer to home' market arrangements that we have a greater degree of control over.*

### **Lessons to be learnt from international experience – industry speakers**

#### **Brian Galloway (Scottish Power) presentation on Iberdrola and the Spanish market**

Brian Galloway gave an overview of the Spanish electricity market: a hybrid/mixed dispatch system with a single price and SO redispatch. Low carbon generation is incentivised through subsidies and there is a capacity mechanism to promote capacity adequacy, first introduced in 1996 and reformed in 2007. Brian outlined some of the challenges that Spain's pursuit of renewables goals has led to and the learnings for the UK market. He then moved to discuss the challenges of the implementation of a single, integrated EU market and the big questions around market design, harmonisation and promoting competition.

- There was some discussion of the role of hydro in the Spanish system, where it is strategically positioned to deal with system imbalances. The SO also has a very active role, which helps.
- There was some discussion of Spain's strong progress against their renewables target and the impact that the rapid growth of renewables has had on the market.
- One stakeholder highlighted a main lesson from this case study on problems with retrospective changes to subsidies, which he suggested had left gas fired generation in Spain as (effectively) stranded assets, potentially a worry for EMR.

#### **Andrew Claxton (APX) presentation on wholesale markets and RES**

Andrew Claxton gave an overview of the scope and operations of APX, before providing details of trading activity and retail competition across notable European markets. Andrew outlined the changing environment for the wholesale market and the current key themes: bringing RES into the market, rewarding capacity and flexibility, aligning transmission networks and appropriate regulation/governance of markets, with the Target Model importantly used as a foundation to build upon. He went into further detail on issues with bringing RES into the market and reorienting the design of markets. He outlined the reasoning for high or low liquidity across different markets being a factor of the fundamentals of each market, rather than the market design.

- One stakeholder claimed that the fact that we now have CfDs and a CM through EMR means that the wholesale market is becoming a 'residual market'.
- One stakeholder expressed their concern the Capacity Market and EMR more generally may not be compatible with market coupling.
- One stakeholder asked to hear more from Ofgem on how the industry could move from an EMR world with CfDs to a more market-led world.
- One stakeholder questioned if there was anything preventing other countries adopting intraday auctions, like in Spain. While there was no clear reason given why not, there was a feeling expressed by some stakeholders that historical business as usual and institutional arrangements in some countries have limited the demand for intraday trading. Nevertheless, new technologies and new market entrants may reverse this in the future.

**Peter Hicks (Ofgem) presentation on Australian NEM**

Peter Hicks gave an overview of the Australian NEM using a 'building blocks' approach to describe a series of markets with centralised generation dispatch and zonal energy prices which are dominated by coal generation and balanced using a combination of gas and hydro generation. Peter transposed the NEM onto the three challenges in the framework for future challenges to market arrangements (intermittency, capacity market, European integration), giving a picture of a market that he thought of as a 'mini-Europe', with a common set of rules across the markets. Peter described an energy only market with price caps that allow prices to spike and a positive capacity outlook, where margins are healthy but there may not be a clear exit signal for capacity. He also mentioned the sensitivities around climate change policy, which has been a major ambition but has had limited impact on the market.

- There was some discussion of the system of cross zonal transmission planning employed in the NEM.
- A Forum member recognised how, in the NEM, a simple market based on fundamentals can manage and accept price spikes, but stated that the interventions in GB mean that this is no longer possible.

**Insights and what can be done differently****Mark Copley now brought the discussion around to think about insights and lessons from international case studies that can be looked at in a GB context.**

Stakeholders were first asked to consider the insights gained from evaluation of the design of other markets. The discussion focused on the importance of fundamentals in market design and the role that policy drivers have to play in altering the market. Stakeholders highlighted how the policy space is changing the role of the wholesale market to a more 'residual' market, where the investment signal is taken out of the market and there are different interactions with the incentives placed on market players. The wholesale price is now no longer the main signal in the market.

There was also some discussion of the increasing importance of close to real-time markets given the need for extra flexibility to cope with the increasing challenge of intermittency. The new role for the demand side was also discussed but it was suggested that, as yet, this has provided few solutions to the challenges.

- One stakeholder questioned whether anything further should be done to encourage Demand-Side Response – if there is no evidence of barriers preventing DSR then markets should be left to bring forward the optimal solution.
- One stakeholder warned that while low wholesale prices look to be a goal that we want the market to deliver, it could effectively 'bankrupt' funding for subsidies through the LCF, as the expenditure is directly linked with the wholesale price.

**Following this summation of the insights, stakeholders were asked to consider the lessons that we can take from this and apply to GB to seek to address the future challenges outlined in the framework.**

The discussion focused on how the framework and the issues fit together; to understand how the collection of signals work in conjunction with each other and how policy interventions modify market signals. Stakeholders suggested the need to see policies that complement each other and look to optimise the existing market signals and maximise opportunities for participation in the market, with markets evolving naturally based on underlying fundamentals.

Stakeholders discussed the nature of this 'residual' wholesale market and the need to consider an exit route, ie how to move back to a market where the investment and operational signals are driven by the wholesale price, which is driven by fundamentals. It was made clear that in order to achieve this, the wholesale price would have to be high enough that this would become the optimal course of action for an individual market player, above the subsidies provided through the CM.

- One stakeholder noted that we should mostly concentrate on Efficient Dispatch and Cost-Reflective Prices (ie, the left side of the framework) when looking at how to address challenges.

### **Concluding remarks and next steps**

#### **Mark Copley asked stakeholders where this work should go next.**

- One stakeholder suggested to look how SBR, EBSCR and CM all fit together, and to consider how different types of market participants interact with each other and the markets (ie, 'day in the life' work). This view was shared by stakeholders and there was some discussion of the value of the 'day in the life' work.
- Alongside this, one stakeholder suggested work to look at the suite of interventions and map the impacts of these in terms of how 'residual' the role of the market becomes and look at the signals/distortions that are provided.
- One stakeholder gave the example of the CM which is intended to provide certainty about capacity and targets a set amount of capacity but may end up forcing some types of existing capacity to close.
- It was noted that the CMA is interested in how the markets work with EMR.
- One stakeholder noted that it is difficult to pick specific ideas for things to do differently. He suggested that we perhaps could break into smaller cluster/focus groups and then bring the results back to the wider forum.
- It was suggested by one stakeholder that there would be benefit in moving away from reacting to policy developments and instead focusing work on highlighting the critical, positive role of markets and the dangers of greater intervention.

**Mark Copley brought the discussions to a close and thanked Forum members for their active participation in the meeting and the insights to have come out of it. He noted the benefit of meetings like this – an opportunity to move away from 'single issue' meetings – and committed Ofgem to look into what the 'day in the life' work could look like. He suggested that there would be an onus on Forum members to provide significant inputs should this work advance, based on their own organisations' experiences.**