

Future Wholesale Markets

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The **Future Trading Arrangements (FTA)** Forum (May 2013 – Nov 2014) explored future challenges facing the GB electricity wholesale market through the Long Term Market Arrangements workstream.

Framework for assessment

Consider how market arrangements are changing, the stresses placed on them and how the market should be designed to deliver outcomes for consumers.

Conclusions

1. Wholesale market arrangements should be looked at holistically in order to assess the future impact of policy changes.
2. We need to deepen our understanding of how different players participate in the wholesale market.

- The **Future Wholesale Markets (FWM)** project stems from these conclusions. FWM's purpose is an evaluation of what a wide cross-section of market participants are anticipating and **what their outlook on the electricity wholesale market is** over the 3-5 year time horizon. This has been achieved through **a set of bilateral meetings** between Ofgem, DECC and stakeholders across the summer and autumn.
- The intelligence gained from these meetings forms an important input into our thinking surrounding **what our regulatory policy agenda should be in electricity wholesale markets**, alongside our wholesale market indicators, the CMA findings, future government policy and ongoing integration with a single European market.

Over the course of the summer and autumn, we (Ofgem and DECC) have met with market participants from across the industry.

These conversations have focused on:

- Key risks and opportunities that they face in the wholesale market
- How different markets affect their investment and operating decisions
- The effect that recent policy interventions have had on their business and the wholesale market
- The effect that projected changes from intermittent generation, Europe, DSR and storage are likely to have on the market

- No short-term wholesale issues requiring immediate policy work.
- Recent policy uncertainty has negatively impacted on investment.
- In the medium to longer term, the electricity system is expected to be transformed by a rapid increase in intermittent and distributed generation and storage.



**Clear messages for our
policy agenda in
electricity wholesale**

1. Closely monitor the impact of market interventions.
2. Do what is in our power to reduce short term uncertainty.
3. Consider how the wholesale market will need to change as the energy landscape evolves.

Investment incentives: The forward curve doesn't sufficiently reflect scarcity in order to drive investment. The CM is the critical means by which thermal generation can secure revenue certainty.

Intermittency, distributed generation and system operability:

Distributed generation is having increasing effects on system operability, the role of the SO and the operation of the wholesale market.

Regulatory certainty: Policymakers should focus on providing certainty on the direction of travel of policies, where possible.

Financial Regulations: Widespread concern at the potential effect on market access and liquidity.

Balancing services and flexibility: Stakeholders queried whether SBR/DSBR contributes to low price volatility and sought confirmation that these services would end when the CM comes in.

Effective integration with European markets: Concern that policy interventions (CPF, BSUoS and TNUoS) mean that interconnectors and overseas generation don't compete on a level playing field with GB generation.

EBSCR: Concern at the pace of the reduction in PAR and the effect that a sustained period of VOLL pricing could have.

EMR: Uncertainty around the future of renewables support in the LCF and the CPF. Industry support the CM as necessary support for thermal investment, but raised a number of issues for consideration.

REMIT: Stakeholders asked for greater guidance to instruct their reporting.

Liquidity: The cost of compliance with S&P has been easier than expected, but views differ on the effectiveness of the reforms.

Ofgem

- Monitor recent policy changes closely.
- Where possible, provide certainty on the direction of travel of regulatory arrangements.
- Continue to work with industry and DECC to influence in Europe.
- Develop thinking around electricity system governance and work jointly with DECC on the flexibility project.

Ofgem has recently published guidance on REMIT and an open letter on the future of the additional balancing services.

DECC

- Consult on and implement incremental adjustments to EMR.
- Continue progress on EU market integration, ensure good outcomes for EU Electricity Market Design work and work with Ofgem, FCA and HMT on Financial Regulations.
- Work with Ofgem on electricity system governance and the flexibility project.
- Ensure Ofgem has necessary powers for market investigation and enforcement to promote market integrity and transparency.

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.