

Energy UK response to Ofgem's consultation on its proposed approach to cost recovery in relation to Capacity Allocation and Congestion Management mechanisms for electricity interconnectors

6 April 2017

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

Response

Energy UK members support the implementation of single day-ahead coupling and single intraday coupling. The implementation of market coupling is likely to provide GB consumers with significant benefits through more efficient cross border trading arrangements.

The proposed application does not appear to be in line with Ofgem's previous statements that, despite the CACM Regulation having entered into force in August 2015 (i) it will take at least 31 months from entry into force for the CACM regulation to take effect; and (ii) that Ofgem will make only those changes *necessary* to ensure compliance with the European Network Codes.

We are concerned by the proposal that the operational and clearing and settlement costs should be recovered through transaction costs. In that context, we would welcome clarification from Ofgem on what is meant by transaction costs.

We also highlight that the operational costs of the existing market coupling solutions are not currently recovered through transaction costs. Energy UK is concerned that such operational costs could be significant to the current transaction costs faced by market participants to trade on organised spot markets in GB. Significantly increasing transactions costs could create a significant risk that liquidity shifts to alternative trading venues, where market participants do not face the additional "charges" associated with the GB share of the operation costs of single day-ahead coupling and single intraday coupling. Such a shift could result in a reduction of liquidity being transacted via the coupled markets, and further fragmentation of liquidity in GB – this would not be in the interests of the GB consumer as it would significantly mitigate the benefits of the coupling mechanisms.

Energy UK welcomes the opportunity to further discuss the points raised within this consultation with Ofgem. Should you require further information or clarity on the issues outlined in this paper then please contact:

Kyle Martin

Senior Policy Manager, Generation
Energy UK
Charles House
5-11 Regent Street
London SW1Y 4LR

Tel: 020 7747 1834

Kyle.martin@energy-uk.org.uk

www.energy-uk.org.uk