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EDF Trading response to selected questions included in the “Consultation on Electricity System Operator Incentives from April 2017”

Question 1a: Should we place financial incentives on the SO in the period between 1 April 2017 and when we are in a position to implement longer term SO incentives?

Answer: Yes, improvement for the next period (until 2018) should focus on balancing mechanism procurement practices in order to ensure transparency and a more widespread use of open auctions or tenders. Bilateral contracts should be limited as much as possible and transparency should be ensured when this mechanism is used. In the long term however, any lack of transparency in procuring balancing services could potentially generate inefficiencies in the market. It would be appropriate to go beyond the mere incentives-based approach and couple it with reinforced provisions that require SOs to ensure full transparency.

Question 4: What is the best way to set an incentive on the SO to incur efficient costs when procuring Black Start from April 2017?

Answer: Black Start reserves procured via transparent and market-based mechanisms would ensure costs to be dealt more efficiently. Ex-post assessment of costs would meanwhile help in evaluating efficiency level of Black Start procurement.

Question 6a: Do you believe there is a need for a new incentive on short term demand forecasts from April 2017? How could this be designed? What timescales should it be based on: week ahead, day-ahead, hour-ahead, other?

Answer: Generally yes. Also, we would like to point out the following on forecast on generation:

Wind - Apparently the SO tend to over-forecast wind. Wind forecast can be vastly different from other providers.

Solar – Apparently the SO tend to under-forecast solar.

Incentives to produce a more reliable forecasts would be welcomed. In alternative, using other forecast providers as a sense checking tool could improve the reliability of NGET forecasts for intermittent generation.

Question 7: Do you think the SO's procurement of balancing services needs to be more transparent and open? If so, what steps should be taken? Should the SO pursue more market-based approaches? Should we introduce any incentives or requirements on the SO in this area from April 2017?

Answer: SO's process for procurement of balancing services has been opaque in some aspects. In particular we refer to Schedule 7a of GTMA which sets out the provisions for BM Unit Specific Transactions. To date, it is apparent that services procured under Schedule 7a are characterised by lack of transparency and lack of timely disclosure of relevant details. The inability for the market to assess and predict underlying reasons, timing, volumes and prices of trades may discourage trading activity and ultimately reduces liquidity.

In the short term more transparency should be provided by, for instance the publication of all information related to the struck deals under Schedule 7a in a timely and accessible manner. The interpretation of this being "immediately after the deal is completed" in order to inform market participants on volumes and prices (to date according to BSC v2.0 05/11/2015 sec 7.3 c BSAD can be published the day after the settlement day).

Both SO's long term and short term needs for reserves should be transparent. In the medium and long term the SO should indeed pursue a more market-based approach to balancing services procurement on the basis of reliable forecasts. It is our opinion that more long-term contracts, transparently and openly procured by using market based mechanism to the greatest degree possible for periods of concern (potential system imbalance) would be a more prudent way to help reduce the overall costs and the need for system action. Any incentive that could ensure this outcome would be welcomed.

Question 8: Do you agree with our proposed scope of changes? Is there anything else you believe should be changed, added or removed from the existing scheme?

Answer: We generally agree on: (i) aiming for increased accuracy on forecasting demand and generation and (ii) the need to ensure higher level of transparency and openness of balancing service procurement.

One point that is of particular significance for market participants is the timely availability of information on balancing service needs. We appreciate that System Operator have to operate within specific risk metrics (frequency, voltage) which may influence the requirements for balancing services. Nevertheless, changes in SO's needs should be fully transparent: any planned or unplanned outage or necessity that have market impact should be timely flagged. Ideally, we would welcome any modification that could ensure SO's engagement in bilateral negotiation for balancing services takes place after their needs have been made clearly transparent to all market participants. Overall we strongly agree that the System Operator should aim for more-market based approaches for balancing services procurement.

We would be happy to discuss any of these suggestions in more detail. Please do not hesitate to contact Samuele Repetto , EDF Trading Regulation and Transmission department (landline 0044 020 7061 4363 TransmissionAndRegualtion@edftrading.com) should you wish to discuss any of these suggestions in more detail.

I confirm that the content of this letter may be published on Ofgem's website.

Yours faithfully,

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