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By email: electricitySOreform@ofgem.gov.uk

EDF Trading response to selected questions included in the “Consultation on Future arrangements for the electricity system operator: its role and structure”

Question 1: What are your views on our proposed objectives for the SO.

Answer: We agree that the SO should drive competition and efficiency across all aspect of the system. In particular market based approaches should be sought wherever is procurement of services is required in order to ensure proper competition and cost efficiency which ultimately also provides benefit to consumers.

Question 2: What are your views on our expectations for how the SO should seek to achieve these objectives?

Answer: EDF Trading Ltd. considers that the SO should take a more comprehensive and market based approach in its function of ensuring system balance. In particular the new SO should focus on putting in place reliable and transparent balancing mechanism procurement practices.

We generally agree on:

- The need to ensure higher level of transparency and openness of balancing and ancillary service procurement.
- Ensure that balancing and ancillary service product requirements do not inefficiently restrict new and existing providers from competing.
- Avoid any opaque procurement practices that characterised by lack of transparency and lack of timely disclosure of relevant details and that may discourage trading activity and ultimately reduces liquidity.
- Balancing actions concluded by SO should be clearly identifiable and transparently communicated to market participants. We would welcome any modification that could ensure SO’s engagement in bilateral negotiations for balancing services takes place after their needs have been made clearly transparent to all market participants.

- Aiming for increased accuracy on forecasting demand and generation. In particular publishing reliable and unbiased forecast of future margins, demand, wind generation and balancing costs.
- We particularly agree on the fact that improving transparency and accessibility of balancing service can have an immediate start. It is indeed of particular significance for market participants to have availability of information on balancing service needs. Also we would expect the SO to put in place appropriate processes to maximise competition in this area.

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 through market based mechanism to the greatest possible degree also for periods of concern (potential system imbalance) are a more prudent way to help reduce the overall costs and the need for system action.

Question 3: Do you agree with our proposals for what license changes are needed to support these objectives?

Answer: We appreciate that a license modification might be needed to ensure more independence and appropriate definition of the SO roles enabling it to achieve the stated objectives. However, after a first review, National Grid's initial cost estimates for SO/TO separation seems to be disproportionate. A proper assessment of these cost and full engagement of stakeholder is required in our view.

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,

Samuele Repetto
Regulatory Advisor

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