



Consultation Response

By email to: gb.markets@ofgem.gov.uk

10 April 2013

Ms. Rachel Fletcher
Partner, Wholesale Markets
Ofgem
9 Millbank
London
SW1P 3GE

Dear Ms Fletcher

ELEXON's thoughts on the proposed review of future electricity trading arrangements

We welcome the opportunity to provide ELEXON Limited's views on the proposed review of electricity trading arrangements as set out in the Ofgem letter dated 18 February 2013.

As you know, ELEXON, as the Balancing and Settlement Code (BSC) Company for Great Britain, is responsible for the proper, effective and efficient delivery of the BSC. And because these proposals will probably result in significant Modification(s) to the BSC, our core business, we have a keen interest in the outcome and believe we can add value to your detailed technical development and implementation discussions because of our long experience of implementing change within the GB electricity trading arrangements.

The views expressed in this response are those of ELEXON Limited alone, and do not seek to represent those of the Parties to the BSC. Our response does not seek to favour any particular policy option as this is not our role – we have limited our response to considerations of process and stakeholder engagement.

Question 1: Do you agree Ofgem should launch a project to create a high level design of the future electricity trading arrangements?

We agree with the rationale that Ofgem has described in its letter. We believe that in the medium term the trading arrangements in GB will be driven mainly by the development of the European Network Codes and that the broad scope for changing electricity balancing and settlement arrangements within GB will be unclear until the Electricity Balancing Network Code drafting is completed and the direction of change is clear and has achieved a large degree of political consensus. So from our perspective of implementing change in the BSC, there is a danger in progressing too wide a reform in the very short term that GB-specific changes will either have to be undone or rethought in the light of these European developments, and given that European Network Codes will be superior to the GB BSC.



Consultation Response

Therefore we agree that the EBSCR should be reduced in scope to those items that Ofgem is reasonably sure will not be affected, or are in line, with the European direction of travel.

A somewhat similar argument applies with respect to EMR as, although this is largely within the gift of GB, the details are still being finalised and we recognise the potential for interaction between capacity mechanism and cash-out as both could incentivise the provision of capacity.

Question 2: What key issues should be examined as part of a work stream on future GB trading arrangements?

Given our role in the GB electricity market, we wouldn't seek to comment on wider policy issues but from what we can see at the moment of future developments in GB and Europe, the scope you have suggested in the latter part of Annex 1 and in Annex 2 of your letter appears to cover the issues that we can see.

If we were to comment on the detailed implementation of any chosen policy, we would note that if pay-as-clear is adopted for the balancing mechanism (as is foreshadowed in the European Electricity Balancing Network Code proposals) then the question of whether to exclude the costs of system balancing arises when determining what the clearing price might be and, if so, how that will be done.

We also agree that market splitting, if adopted in GB, could interact with EMR FiT CfD reference prices and possibly the Capacity Market (if any payments are referenced to market or imbalance prices). To implement market splitting in the current BSC arrangements would also probably require energy contracts to link with particular pricing zones.

Question 3: What form should the process take?

You asked what processes should be used for maximising the opportunities for stakeholder engagement.

We believe that any approach that is open, inclusive and fair to all interested stakeholders is appropriate. In particular, as far as is possible and appropriate, to be fair, all stakeholders should be consulted in similar timescales. For that reason, we support the idea suggested in your letter of a dedicated micro-site to keep stakeholders updated with thought pieces upon which stakeholders can comment. Ideally updates to this site would be flagged within your daily email bulletin.

If using trade association nominees for engagement, such as the EBSCR Technical Working Group, we agree that this should be done in addition to, and not instead of, Ofgem's usual stakeholder engagement. Our experience of some consultation processes within the European electricity market development arena has highlighted an issue with relying solely on bilateral meetings or trade association nominees for face to face consultation, in that it can result in some stakeholders having prior access to and a greater input to proposals than other stakeholders. However, this can be mitigated by the simultaneous publication of any documentation shared at such meetings on the internet and a clear route to input comments.



Consultation Response

In conclusion

ELEXON is ready and willing to assist Ofgem and industry in the development of proposals and, if those proposals are taken forward, with their implementation.

If you wish to discuss this further or have any questions with regards to this response, please don't contact me on 020 7380 4253, or by email at steve.wilkin@elexon.co.uk .

Yours sincerely

Steve Wilkin
Senior Market Advisor