


Future Trading Arrangements and the challenge of delivering secure, low carbon and affordable electricity

Mark Copley: Associate Partner, Markets

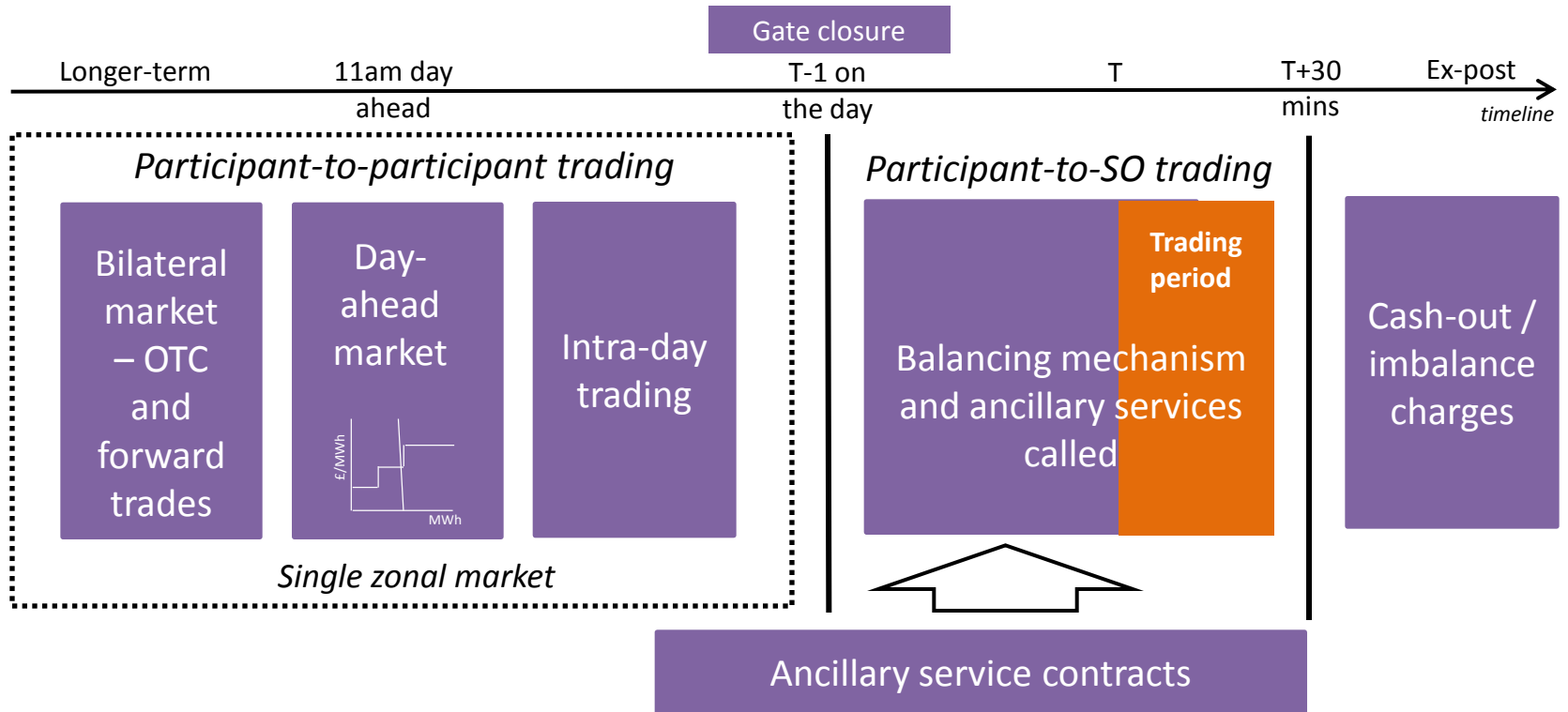
**Scottish Renewables Conference
18/03/14**

ofgem

- 
1. The wholesale market
 2. Changes in the market
 3. Ofgem efforts to improve performance
 4. Looking to the longer term

- **Electricity wholesale is a managed market – a complex suite of arrangements designed to create space for competition, with the aim of delivering efficient operational and investment outcomes.**
- **A well functioning wholesale markets contributes to security of supply, to competitive prices and promotes sustainability.**
- **Ofgem’s role is to ensure the arrangements meet consumer interests within the context of UK Government policy and EU Law**

What are the GB trading arrangements?



Competition drives efficient investment & operations

Energy-only
market

Locational
signals through
charges

No mandatory
exchanges

Decentralised
dispatch – SO
as residual
balancer

Equal
treatment of
demand side

All market
participants
exposed to
imbalance risk


Market arrangements cover what products are traded, where and by whom, including what information is exchanged and rules around use of scarce network infrastructure

Forward
market

Day-ahead
market

Intra-day
market

Balancing
arrangements

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A fast changing market



Change in generation mix (intermittency, plant retirement, new technologies)



European integration (European target model reforms, greater interconnection)




Government's Electricity Market Reform (capacity mechanism, CfDs/FiTs)



Financial regulation (REMIT, MiFID/MiFIR, EMIR)



Technological changes (smart metering, DSR capabilities, storage)

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- **Ofgem's role is to ensure the arrangements meet consumer interests within the context of UK Government policy and EU Law.**

We are working hard to:

- **Enhance liquidity;**
- **Introduce harmonised pan European rules;**
- **Improve cash out arrangements and incentives to balance;**
- and
- **We continue to focus on monitoring market performance.**

Objectives

- Ensure the availability of a range of longer-term products to support hedging
- Support robust reference prices
- Promote an effective near term market which enables all companies to buy the power they need for their customers.

Improvements

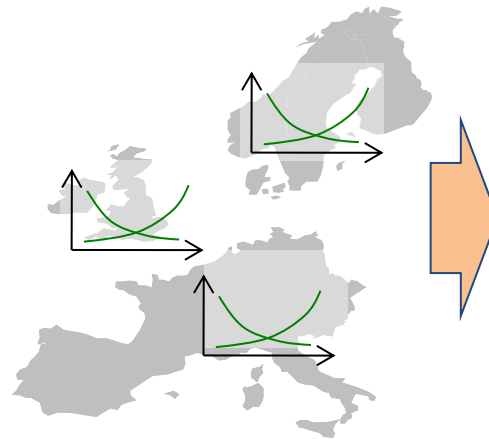
- From 31 March, our ‘Secure and Promote’ liquidity intervention will include:
 - Rules to ensure small suppliers can access the wholesale market products they need
 - A market making obligation to ensure regular opportunities to trade in a range of forward products

Day-ahead market coupling in North-West Europe (NWE):

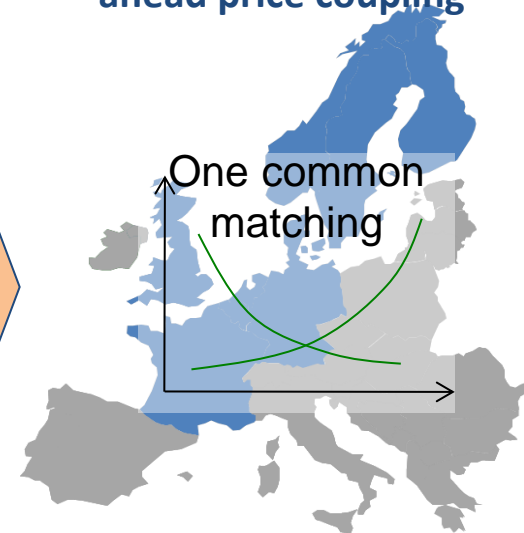
Pre market coupling



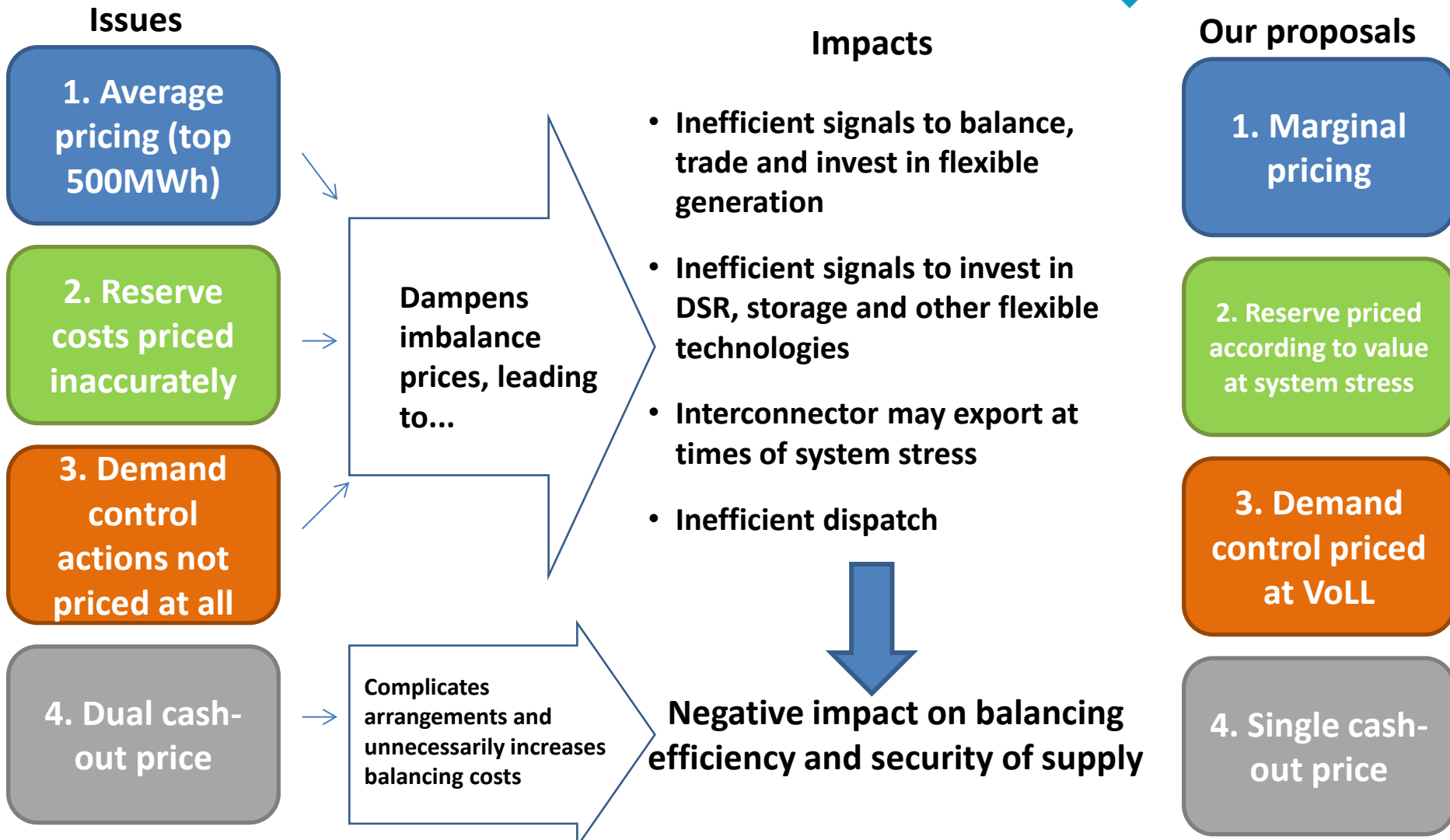
On-going process...




Feb 2014 – NWE Day-ahead price coupling



To be followed by intraday and balancing



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The wholesale market faces some difficult questions



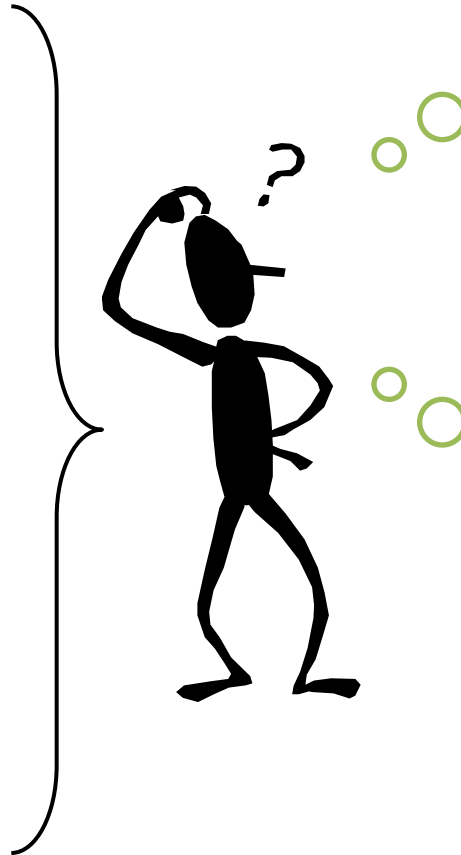
Contracts for Difference

Carbon Price Support



Emissions Performance Standard

Capacity Mechanism



How do trading arrangements need to evolve to provide for the transition to EMR, implement the European Target Model? Are they fit for purpose? Do they make the most of technological developments?

What is the long-term role of the market and trading arrangements to deliver security of supply, and low-carbon and affordable energy?

- **We created the Future Trading Arrangements project to consider longer term changes that might be needed to market rules.**

We created a Forum to work with industry in May 2013 and held several useful meetings.

We wrote to industry in Feb 2014 updating on progress.

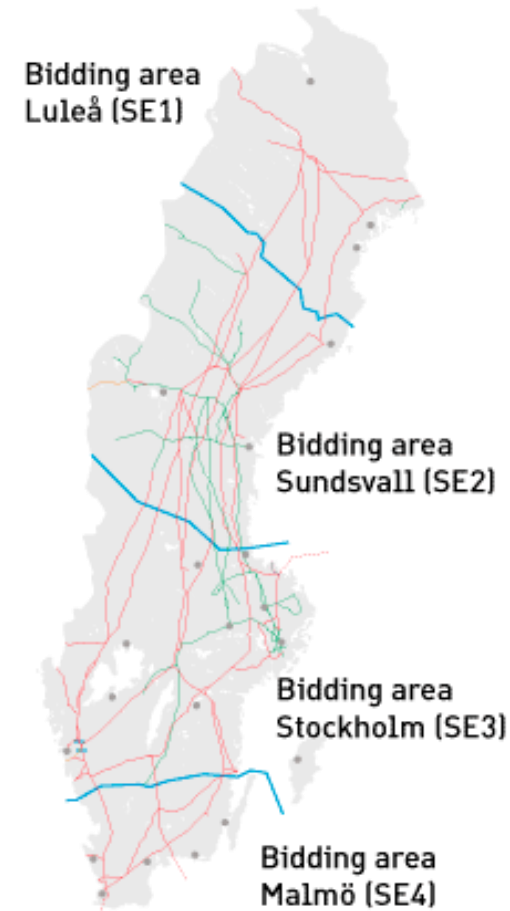
We will initially focus on:

- **the definition of bidding zones; and**
- **on longer term market arrangements**

With an update being provided to the Forum in summer.

- **A bidding zone is an area in which a single price can apply.**
- **Different countries have different numbers of bidding zones.**
- **The bidding zone configuration can influence liquidity, investment incentives and congestion.**
- **The Capacity Allocation & Congestion Management network code will require a Europe wide assessment.**
- **We think there is benefit in starting to think how this review will be done.**
- **We start with the code requirements and no preconceived ideas.**

Map from Svenska Kraftnät



- **We know we want market arrangements to deliver certain outcomes.**
- **And we think there is a set of principles which should underpin trading arrangements.**
- **But we know the sector is changing significantly.**
- **We cannot predict how the sector will evolve, but we do think there is a need to ask whether the current arrangements remain appropriate in different futures.**
- **And to work with industry to act if necessary.**

- **The wholesale market is experiencing a very significant amount of change.**
- **Ofgem has an important role in making sure arrangements benefit customers in the short and long term.**
 - **The Future Trading Arrangements Forum has been established to involve stakeholders in thinking about long term issues;**
 - **and runs in parallel to changes driven by EMR, European code developments, EBSCR and Liquidity reforms.**
- **The work is by no means straightforward – we proceed with caution.**

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.

Drivers for reform of market arrangements



Drivers	Key issues/questions for wholesale market design
EU integration	What might implementing the current suite of EU Network Codes mean for our market features and in particular the role of the SO as residual balancer??
	Is there a case for locational pricing?
	How “deep” does harmonisation need to go to capture the benefits of integration?
EMR	What is the role of the energy market in delivering security of supply (pre and post EMR)?
	Can we have efficient dispatch alongside CfDs and what might CfDs mean for appropriate curtailment arrangements?
Change in generation mix	What is the appropriate imbalance risk exposure for intermittent generation?
	Are our intraday trading arrangements fit for purpose?
	What new ancillary services might we need?
Introduction of “smart”	Do we appropriately value and reward flexibility?
	Do our arrangements accommodate aggregators and other business models that might provide a route to market for DSR?