

# Electricity Wholesale Market Reform RPI September 2013

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- Current electricity wholesale market design may no longer be fit for purpose
- A priority for Ofgem is to review the need for wholesale market reform
  - Future Trading Arrangements Forum established to involve key stakeholders/opinion makers in this work
  - This runs in parallel to “short term” reforms driven by the Electricity Balancing Significant Code Review and Liquidity projects
- The work is by no means straightforward – we proceed with caution!

**NO CHANGE FOR CHANGE SAKE**

- 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
- The current market features reflect circumstances at the time of NETA design
  - Hands off Government/No Government policy on generation mix
  - Little physical interconnection with Europe/No European Target Model
  - Secure capacity margins
- NETA has delivered reasonably well to-date although room for improvement even absent the scale of change in circumstances we are seeing – aim of EBSCR
- Ofgem’s role to ensure the arrangements meet consumer interests within the context of UK Government policy and EU Law

## *Competition drives efficient investment & operations*

Energy-only  
market

Locational  
signals through  
Tx 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

Drivers	Key issues/questions for wholesale market design
<b>EU integration</b>	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?
<b>EMR</b>	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?
<b>Change in generation mix</b>	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?
<b>Introduction of “smart”</b>	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?

## Political

How much political support is there/will there be in the future for an energy market?

DECC say EMR is a temporary intervention – when will it phase out?

Many other big issues such as market splitting and anticipate trade offs between GB and EU market integration – how much will be left to market design and how much deemed policy?

## Project

How to consider reforming the market without creating investment hiatus?

Fuzzy boundaries – overlaps with design of gas market, institutional arrangements, network investment and EU market design...

## Institutional

Lots of other bodies in this space

- DECC
- ACER
- Commission

Financial regulation becoming an increasing consideration in design of energy market

## Industry

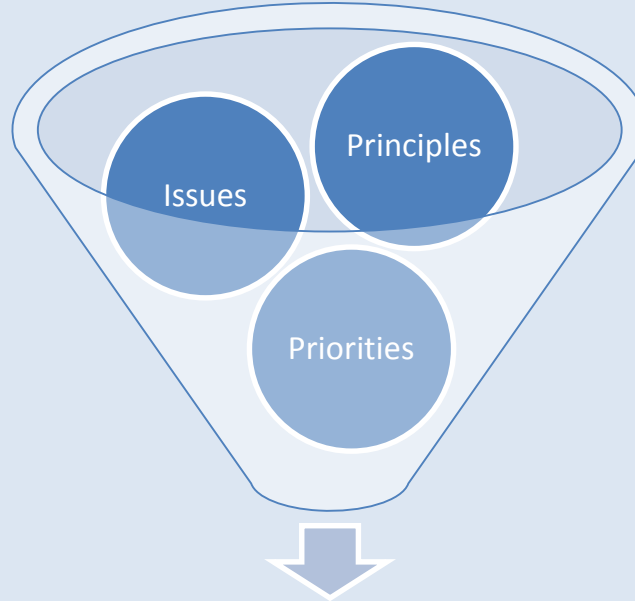
Split interests e.g between those who can give additional flexibility and those parties wanting weaker price signals for intermittent generators.

Change fatigue and already stretched resources

**These challenges are not an excuse to do nothing.... But they have to be carefully managed**

**Good levels of industry and government support for the Future Trading Arrangements work**

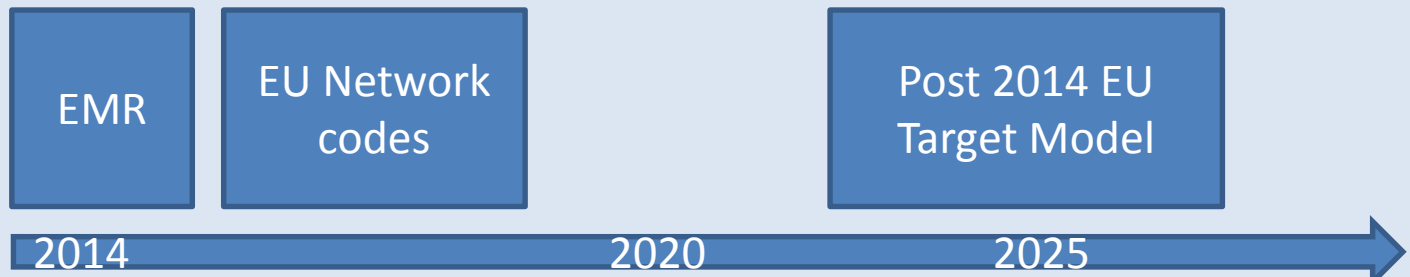
FTA  
Forum  
focus to  
end  
2013



FTA  
Forum  
focus in  
early  
2014

## Scope of Reform

*What issues need to be addressed over what timeframe? What solutions should be considered?*



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**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.**