

# Future Trading Arrangements

## 14 October 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

# The market is changing and the challenges are significant



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)



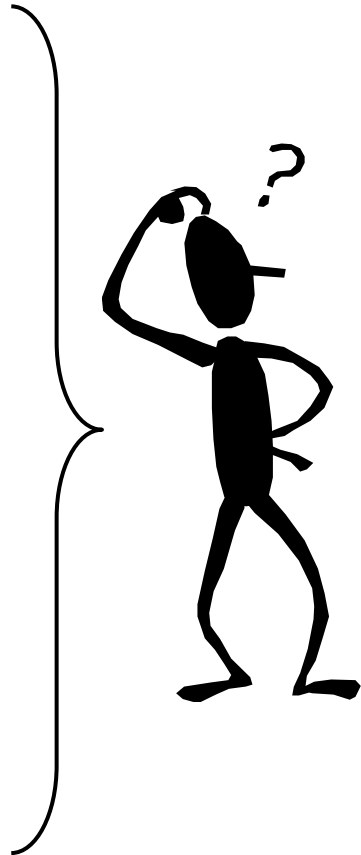
Contracts for Difference

Carbon Price Support



Emissions Performance Standard

Capacity Mechanism

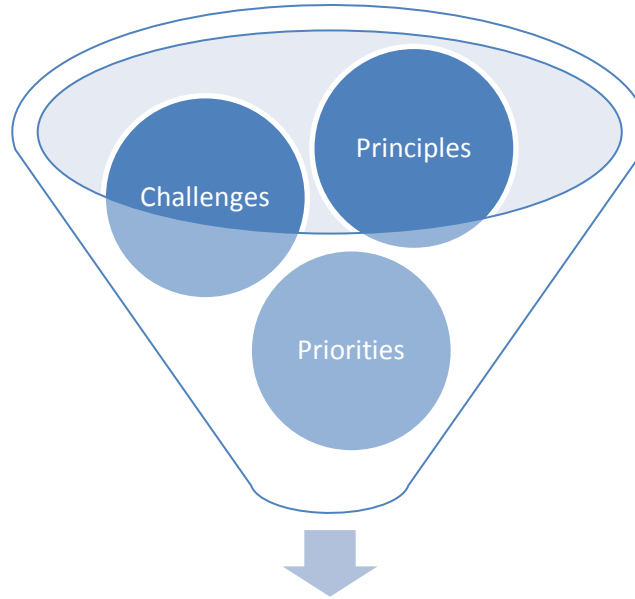


How do trading arrangements need to evolve in the light of these changes in the market?

## Key challenges include:

- How do we best integrate the increasing amount of renewables into the system?
- How do we ensure the market provides enough flexible capacity?
- What is the impact of EU integration on GB market?
- What is the future role of the price signal for investment?

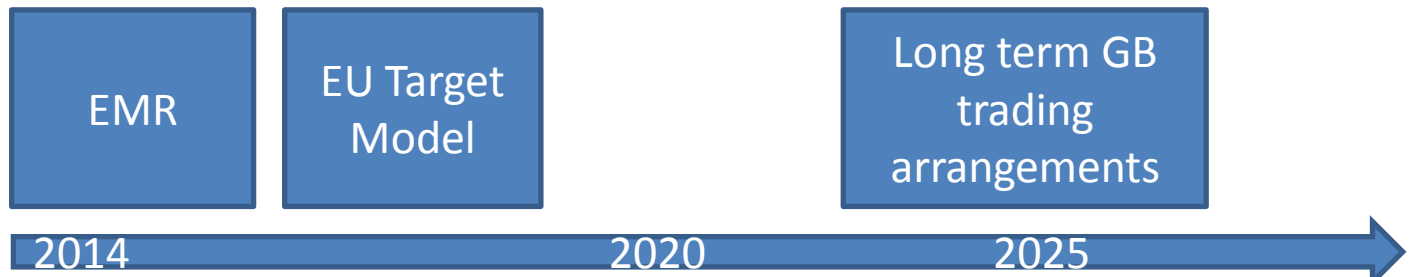
FTA  
Forum  
focus  
until  
end  
2013



## Scope of Reform

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

FTA  
Forum  
focus  
from  
2014



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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.**