



**REVIEW OF ELECTRICITY
TRADING ARRANGEMENTS:
ADVICE ON TERMS OF REFERENCE
JANUARY 1998**

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1 INTRODUCTION

- 1.1 On 23 October 1997¹, the Minister for Science, Energy and Industry announced that he had asked the Director General of Electricity Supply ('the DGES') to consider how a review of electricity trading arrangements ('the Review') might be undertaken. He asked the DGES to draw up terms of reference and to advise him on how the industry and consumers might be involved, how the experience of others might be captured and what resources this work might need. The Minister said that he expected that the DGES would lead the review and that the Department of Trade and Industry (DTI) would be closely involved.
- 1.2 On 5 November 1997² OFFER issued a consultation paper setting out initial views on the objectives, scope and process of the review and inviting the views of others. Sixty-four replies have been received. These included responses from the Electricity Pool of England and Wales ('the Pool'), The National Grid Company (NGC), nine generators, 11 regional electricity companies (RECs), three second tier suppliers, four Electricity Consumers Committees (ECCs), the Electricity Consumers' Committee Chairman's Group (ECCCG), 17 industrial and commercial customers and their representatives and 17 other interested parties, including academics, consultants and brokers. Some of these also submitted substantial reports. A list of those who responded is attached as an Appendix. Copies of submissions have been placed in the OFFER Library.
- 1.3 The Review was widely welcomed and respondents provided valuable comments on the initial views on objectives, scope and process set out in the consultation paper. These views have been taken into account in drawing up the advice to the Minister and proposed Terms of Reference for the Review which are set out below.
- 1.4 The Pool has indicated that it is undertaking additional work bearing on the Terms of Reference. Any additional comments or submissions from the Pool or other interested parties will be taken into account in carrying the Review forward.
- 1.5 If you wish to make further comments or submissions relating to the Terms of Reference, it would be helpful to receive comments by the end of February 1998. Responses should be addressed to:

Dr Eileen Marshall CBE
Office of Electricity Regulation
Hagley House
Hagley Road
Edgbaston
Birmingham B16 8QG

Responses will be placed in OFFER's library.

¹ Minister's speech to Pool AGM, 23 October 1997.

² 'Review of Electricity Trading Arrangements: A Consultation Paper', OFFER, November 1997.

1.6 Background and working papers will be made available and explanatory workshops and seminars held as part of the Review.

2 OBJECTIVES

- 2.1 The November consultation paper suggested that the starting point of the Review should be to consider what kinds of trading arrangements would best meet the needs of customers and command their confidence, including with respect to price, continuity and quality of supply. The arrangements should enable demand to be met efficiently and economically and should enable costs and risks to be reduced and shared efficiently. It suggested that, in general, these aims would be promoted by competition in the market, by ease of entry into and exit from the market and by widening the range of choices available to all market participants. Appropriate trading arrangements play an essential role in facilitating such developments.

Views of Respondents

- 2.2 Respondents generally agreed that the focus of the Review should be the needs of customers, with many emphasising the importance of security of supply, as well as customer choice and keen prices for all customers.
- 2.3 Respondents variously commented on the need to encourage trading arrangements which commanded confidence by being transparent, easily understood, flexible enough to be capable of responding to the changing needs of customers and the industry into the next century, and which did not work against, or in favour of, any particular energy source. There was general agreement that customers' interests are best served by the promotion of competition and the widening of choices to all market participants.
- 2.4 Some respondents suggested that the Review should have wider objectives. For example, some larger customers suggested that trading arrangements should be justified according to whether they delivered internationally competitive prices. It was also pointed out that the trading arrangements needed to be consistent with wider government energy, environmental and social policies.

Discussion and Recommendations

- 2.5 Inevitably there were differences of opinion as to which of the objectives should be given greater weight. Nevertheless, the initial views on the objectives of the Review as set out in the November consultation paper were widely supported. The recommended objectives as set out in the proposed Terms of Reference therefore follow the initial proposals, amplified to recognise explicitly the requirement for trading arrangements to be transparent, flexible and non-discriminatory as between energy sources.
- 2.6 Electricity costs are clearly very significant to major energy users competing in international markets. However, international energy prices depend on a large number of factors, including the resource availabilities and government policies in each country. The Review can best assist international competitiveness by

ensuring that trading arrangements enable costs and risks to be reduced and shared efficiently, and more generally by attaining the other objectives of the Review.

- 2.7 The need for electricity arrangements to be compatible with other relevant Government policies has been taken into account in the proposed objectives.

3 FURTHER CONSIDERATIONS

- 3.1 The November consultation paper recognised that a number of other considerations would be relevant. In particular, it would be important to have regard to the present and prospective extent of competition in generation and supply, to take account of the implications for trading arrangements in Scotland, and to be aware of the increasing interactions between electricity, gas and other fuels. It would also be necessary to assess the implications for access to and the role of the transmission network; the role and scope for development of the contracts markets; the implications for, and possible need for changes in, the present framework of control including how the Pool should be governed, the Grid Code, licences, and the Electricity Act; and the implications of European Union law.

Views of Respondents

- 3.2 Some respondents suggested that there should be a comprehensive review of the role played by NGC, including its role in scheduling and despatching generation plant, in purchasing ancillary services, in administering the settlements systems, as well as its role in maintaining a secure transmission system and its approach to determining the structure of charges for use of its system.
- 3.3 Many respondents saw a continued lack of competition in the generation market as the most significant issue in the electricity market and suggested that it should be a central focus of the Review.
- 3.4 Some respondents suggested that the Review should be widened to cover issues which they considered to be particularly important to the development of competition in electricity supply. Many commented on the need to ensure that the Review did not compromise the arrangements to introduce competition into domestic electricity supply in 1998.
- 3.5 Many respondents suggested that the scope of the Review should be extended to cover a thorough review of the Scottish trading arrangements, including consideration of extending the Pool trading arrangements to cover Scotland, thereby creating a Pool covering the whole of Great Britain.
- 3.6 Others suggested that a primary focus of attention should be the contracts markets, since the main requirement was to facilitate the emergence of liquid and transparent contracts.
- 3.7 Respondents emphasised the need to consider the interaction with other fuels especially with the gas market. Some argued there was a need to review the impact of interactions between gas and electricity markets on prices and security of supply in each market.
- 3.8 Some respondents commented on the need to take into account European Community legislation and new UK competition legislation and the Government's

review of utility regulation, as well as other relevant Government policy initiatives, including those on power station energy sources and emissions.

Discussion and Recommendations

- 3.9 It will be important to examine relevant aspects of NGC's role, as owner of the transmission system, as grid operator and as settlement system administrator. For example, it will be necessary to determine rights of access of pooled and non-pooled generation to NGC's transmission system and to ensure that NGC is able to maintain system stability if more generation moves outside the present rules governing central despatch. It will also be relevant to review NGC's charges in this context to ensure that all users pay appropriately for the services they require.
- 3.10 The importance of progress towards effective competition in generation has significance for the Review in so far as the benefits from the creation of more effective trading arrangements depend on such competition, and in so far as the Pool arrangements play a role in its development. An important input to discussion must be an analysis of generation from these viewpoints. The Review will therefore include an assessment of the present and prospective extent of competition in generation. However competition in generation per se will not be the primary focus of the Review.
- 3.11 It is common ground that the Review must not adversely impact on the development of competition in supply, especially the arrangements for extending competition to the domestic market. In supply, as in generation, the trading arrangements should facilitate ease of entry into and exit from the market.
- 3.12 Scottish trading arrangements are important but raise issues which are beyond the scope of the present Review. The Review is primarily intended as a review of the England and Wales electricity trading arrangements. These influence Scottish arrangements, and the impact on Scotland of any changes in the England and Wales trading arrangements will need to be considered. This will include, for example, the implications for the possibility of setting up a GB Pool, but will not extend to assessing the practicalities and desirability of a GB Pool per se.
- 3.13 A key objective of the Review is to identify trading arrangements for England and Wales which enable costs and risks to be reduced and shared efficiently. It will be particularly important to consider the implications of any proposed reforms for the development of more liquid contracts markets, including for physical delivery, contracts for differences and futures contracts.
- 3.14 There are already important interactions between the gas and electricity trading arrangements, most notably because of the increasing contribution of gas fired power generation. The implications of this for electricity trading arrangements need to be considered. It is also important that any changes to the electricity trading arrangements should be examined in the context of their possible effect on the gas market, and that any further changes to gas trading arrangements should be able to take account of possible reforms in electricity trading arrangements.

- 3.15 The electricity trading arrangements will need to comply with European legislation and the proposed new UK competition legislation. In addition, the possibility of legislation following the Government's present review of utility regulation provides the opportunity to consider the regulation of trading arrangements and the Regulator's role in helping to achieve desired changes. The Review will also need to take into account related Government policy initiatives, for example on energy sources for power generation.
- 3.16 The proposed Terms of Reference takes into account the points outlined above.

4 SCOPE AND DELIVERABLES

- 4.1 The November consultation paper suggested that, in designing trading arrangements, it would be appropriate to focus on the wholesale market comprising trading between generators and suppliers in England and Wales, but also to consider the possibility of customers purchasing direct from generators.
- 4.2 It was thus anticipated that the Review would cover a wide range of issues. For example, should there be changes to present Pool arrangements, such as the structure and timing of bids, the setting of System Marginal Price (SMP), capacity payments and Uplift? What should be the nature and the extent of demand-side participation? Should the Pool be supplemented by trading outside the Pool, or replaced by different trading arrangements?

Views of Respondents

- 4.3 Most respondents agreed that the Review should be wide-ranging and that the scope of the Review should cover all the general topics and particular issues suggested in the November consultation. The majority of respondents commented on the need for change although some warned against change for its own sake.
- 4.4 Many respondents were concerned to focus on the Pool, some mentioned in particular the position of interconnectors within the Pool. Some suggested specific reforms for consideration, such as reviewing the role of the capacity mechanism in price setting, and looking again at the possibility of introducing greater demand-side participation.
- 4.5 Many other respondents commented on the need to establish arrangements that reduced reliance on the Pool as the primary physical electricity market, by allowing much more trading outside the Pool. Several respondents pointed out that more flexible arrangements exist overseas and that such international developments should be taken into account. Some suggested that trading outside the Pool would lessen the urgency of making widespread changes to the Pool trading arrangements per se. However, other respondents were concerned at a possible loss of transparency if the focus of market pricing shifted from the Pool.
- 4.6 Respondents also commented on the need to review the governance of the Pool and trading arrangements generally, including the role of the DGES in their regulation.

Discussion and Recommendations

- 4.7 In general, the responses suggest that a major task of the Review should be to evaluate the merits of allowing greater freedom for trading outside the Pool, as against continuing to require essentially all the electricity generated in England and Wales to be traded through the Pool. In both cases appropriate changes in arrangements will need to be considered. In addition, consideration will need to be

given to the governance and regulation of trading arrangements to ensure the timely implementation of preferred changes.

- 4.8 In order to carry out this task, five main pieces of work have been identified.
- 4.9 First, the Review will need to consider and evaluate experience in the Pool to date. This includes what problems have been perceived, what steps have been proposed to deal with them, how far such steps have been implemented and with what effect, the extent to which problems have not been resolved, and the reasons for this.
- 4.10 Second, the particular reforms referred to by respondents will need specific consideration, initially on the assumption that essentially all trading continues through the Pool. Issues to be reviewed include, for example, the capacity mechanism in providing long term security of supply. Is there need for such a mechanism, or can this be better performed by market arrangements? If such a mechanism is continued, what should its form be and how is it to be calculated? Another important issue identified by respondents is the possibility of incorporating more effectively the demand-side of the market in the setting of price. The nature and impact of different types of demand-side participation will need re-evaluating.
- 4.11 The third piece of work is to assess more clearly what would be involved in removing or modifying the present requirement on parties to trade through the Pool, and thereby allowing or encouraging trading outside the Pool. For example, it will be necessary to consider what concomitant changes would be required in the functions performed by NGC to ensure access to transmission facilities and to maintain system stability, and to ensure all users pay appropriately for the services they receive. Similar issues may need to be considered in relation to distribution facilities.
- 4.12 The next stage will be to evaluate the merits of the various possible changes. For example, trading outside the Pool will enable generators to contract directly with suppliers and customers, thereby removing many of the constraints and risks of Pool bidding and central dispatch. However, there will be other constraints and risks associated with non-Pool trading. Removing the constraint to trade through the Pool could open up the possibility of more effective market processes developing, and the creation of other market instruments such as futures and derivative contracts to lower risks, sharpen economic incentives and reveal preferences more clearly. Against this, some respondents expressed concern at a possible loss of transparency if the focus of market pricing shifts from the Pool. The Review will need to consider how far the development of other markets such as a futures markets can be expected to offset this. International experience would be useful here.
- 4.13 The final requirement will be to make recommendations for action, including further analysis as necessary to clarify and implement the preferred changes, and to identify responsibilities for taking forward these changes.

4.14 The scope of the Review and the deliverables as set out in the proposed Terms of Reference have been carefully drawn to allow for full exploration of all these matters.

5 ORGANISATION AND RESOURCES

- 5.1 The Minister has said that he expects the Review to be carried out by OFFER in consultation with the DTI. The November consultation paper anticipated discussions in particular with the Pool and NGC to ensure awareness of their views on all relevant matters. It said consultants would be appointed to assist in identifying and exploring the implications of possible changes to the trading arrangements. It also suggested the appointment of a panel of independent senior advisers to bring outside expertise to bear on the assessment of arguments and proposals.

Views of Respondents

- 5.2 A number of respondents recommended that the Review initiated by the Minister be undertaken by an independent Steering Group, led by an independent chair person and reporting direct to the Minister. They suggested that the DGES was not perceived as being sufficiently independent, having previously published views on such issues as trading outside the Pool and the role of demand-side bidding.
- 5.3 There were differences of opinion as to whether the Pool's own review should be integrated with the review initiated by the Minister or conducted independently. However, most respondents who commented emphasised the need to co-operate with the Pool's review to ensure maximum benefit from the Pool's expertise.
- 5.4 Some respondents questioned whether OFFER had adequate resources to carry out an exercise of this magnitude.

Discussion and Recommendations

- 5.5 The Review must be carried out in a way that has regard to statutory responsibilities, that is seen to be independent and that looks afresh at issues in the light of experience and against a changing industry structure.
- 5.6 The Secretary of State and the DGES are the two persons who have the relevant statutory duties and powers, notably to secure that all reasonable demands for electricity are satisfied, to promote competition, to protect the interests of customers with respect to price, continuity and quality of supply, and to promote efficiency and economy on the part of electricity licensees. They must assess the development of the electricity industry and consider the implications for all parties, including customers as well as licensees. They have statutory powers to take action to remedy problems or to put in place new arrangements.
- 5.7 Several respondents cited previous decisions made by the DGES, involving trading outside the Pool and demand-side bidding. The DGES made clear at the time that he would be willing to reconsider these issues, and others, in the light of market developments. Since then, competition in generation has increased, particularly assisted by the sale of plant by National Power and PowerGen and continuing new

entry. Plans are in hand for the introduction of competition into domestic electricity supply in 1998. Significant steps have now been taken towards the unbundling of uplift services which will allow a more accurate measurement of transmission costs, whether the bulk of electricity is traded within the Pool or outside of it. Experience abroad suggests that a wide variety of different arrangements is technically and commercially feasible. There have also been suggestions that further changes in UK arrangements are necessary in order to allow the development of futures markets as now seen elsewhere. It is therefore timely to look afresh at the present trading arrangements and the extent to which they need to change in future to protect customers' interests.

5.8 To enhance the expertise and independence of the Review, it is proposed to appoint a panel of independent senior advisers with extensive expertise in other markets, in industry and the City, and in economic analysis. They will receive all the papers produced and submitted; as far as practicable, they will attend all the seminars; and they will contribute to the interim conclusions and final report. The advisers' terms of reference will be to provide advice in connection with the review of electricity trading arrangements with a view to ensuring that all arguments are adequately and openly evaluated and conclusions reached and explained on the basis of this evaluation. The proposed advisers are:

- **Lord Currie:** Professor of Economics, and Director of Regulation Initiative, and former Governor and Deputy Principal at London Business School; Member, Retail Price Index Advisory Committee, the European Communities Select Committee; Trustee of Joseph Rowntree Reform Trust; former Director, International School of Business Management, and former member of the Treasury's Panel of Independent Forecasters;
- **Nicholas Durlacher CBE:** Chairman Securities and Futures Authority, Member, Takeover Panel; Director, Investors Compensation Scheme; Director, BZW Limited; and former Chairman of London International Financial Futures and Options Exchange (LIFFE); and
- **Sir Peter Walters:** Chairman, Smith Kline Beecham; Deputy Chairman, Thorn EMI plc and HSBC Holdings plc and a Director of Cordian plc; former Chairman of British Petroleum, Midland Bank, Blue Circle Industrial plc; former Director of the Post Office and the National Westminster Bank; past President of the General Council of British Shipping, the Society of Chemical Industry and the Institute of Manpower Studies; former Chairman of the Governing Body of the London Business School and President of the Institute of Directors.

5.9 A task of this magnitude will require input from all interested parties, including the Pool, NGC, generators, suppliers, customers and others. The Pool, in carrying forward its own review, will be committing considerable time and effort to considering the merits of Pool reform. The Pool is planning, through its review process, to identify a new set of objectives for the trading arrangements by March 1998. It will then consider how the present trading arrangements meet those objectives. This process may then go forward to consider whether alternative

arrangements could better meet those objectives. The Pool's work will provide a valuable input to the Review. The Review team will liaise with the Chief Executive's office of the Pool and with Pool Member companies to ensure the expertise they have is made full use of in the Review.

- 5.10 OFFER needs to be adequately resourced to co-ordinate effectively the many views and expert contributions by others, and to provide independent analysis and appraisal. The DGES has asked Dr Eileen Marshall to lead the work on the Review, supported by a full time review team, including existing and new OFFER staff. Other Directors and staff will be contributing to the analysis and discussions with interested parties. The Review Team will work closely with the DTI's Electricity Directorate throughout the Review.
- 5.11 It is proposed to appoint Caminus Energy Limited and Putnam Hayes & Bartlett as consultants to assist the Review. They have extensive UK and international experience in electricity markets and their regulation.

6 PROCESS AND TIMETABLE

- 6.1 The November consultation paper said that it would be important to enable interested parties to understand the issues fully and to participate in discussion, and to draw out and test the arguments put forward. It envisaged the first stage of a substantive review leading to a report to the Minister in Summer 1998. This would cover principles for, and the broad shape of, new arrangements and recommendations on how work should be carried forward to the implementation stage.

Views of Respondents

- 6.2 Many parties considered the proposed timescale for the Review was tight, and some urged that the latter stages of the process should allow sufficient time to consult and discuss proposals for change and their consequences. Respondents strongly supported a transparent process, including public seminars to provide a forum for discussion.

Discussion and Recommendations

- 6.3 The Minister has indicated that he wishes to receive a report by early July 1998, in order to consider what, if any, changes in legislation are required, consistent with the timetable for possible legislation following the government's review of utility regulation. This report would be an evaluation of the main options for change; it would not be a detailed prescription of the changes. Subsequent to the Review, considerable effort is likely to be required on the detail and to deliver the end result.
- 6.4 The Review will be carried out through an open and transparent process, in a way that allowed all interested parties to participate actively in the Review and for their views to be taken fully into account. To achieve this the process will include the publication of background, working and consultation papers, explanatory workshops to ensure interested parties are familiar with key issues, public seminars to examine and debate options for change and interim conclusions, and the publication of all third party contributions.

OFFER Background Papers and Associated Explanatory Workshop

- 6.5 Papers published in February would review the relevant background material.
- 6.6 The first background paper will concentrate on electricity trading arrangements in England and Wales and related issues and include the following:
- experience in the Pool to date, including the role of the interconnectors;
 - the demand-side in the Pool;

- present arrangements for trading outside the Pool;
- trading arrangements in Scotland;
- the role of NGC with respect to trading;
- the development of competition in generation and supply;
- existing contract markets, including contracts for differences and futures contracts;
- interactions between the electricity and gas markets; and
- the regulatory background.

6.7 The second background paper will cover electricity trading arrangements in other countries and will include electricity trading arrangements in:

- Scandinavia;
- the United States;
- South America;
- Australia; and
- New Zealand.

6.8 The first explanatory workshop will be held during February to discuss the background papers, which will have been previously circulated.

OFFER Working Papers and Associated Explanatory Workshop

6.9 Working papers published in March, prepared by OFFER, will explore changes to trading arrangements within the present Pool and alternative trading arrangements if the present requirement to trade within the Pool were relaxed.

6.10 Responses to the November consultation paper made particular mention of the following issues in the context of changes to the trading arrangements within the existing Pool:

- the capacity mechanism;
- bidding and pricing mechanisms (including firm bidding, on one or both sides of the market, a day ahead/ex-post market, simplified bids, pay as bid, three part Pool prices);

- demand side participation;
- transmission issues (including payment for constrained running and charges for transmission losses);
- operation of the contracts/futures market; and
- international comparisons.

6.11 Although each of these issues can be appraised on its own, there is merit in drawing a number of these issues together and discussing them in the context of a particular package. A package of particular relevance is the so-called ‘day ahead ex-post market’ identified by the Pool for longer term development. The OFFER working paper on trading within the Pool will therefore focus around this concept, without precluding discussion of other relevant issues.

6.12 The OFFER working paper covering trading outside the Pool will need to cover some different issues including:

- the requirement for central despatch, whether under direction or under contract (including provision of reactive power and frequency response);
- liability for NGC transmission service charges;
- liability for remaining Pool uplift charges;
- operation of a balancing market (including charges for stand-by and payments for spill);
- application of transmission and distribution connection and use of system charges, transmission and distribution loss factors and obligations to comply with the requirements of the Master Connection and Use of System Agreement and the Distribution Code;
- transparency;
- operation of a contracts/futures market; and
- international comparisons.

6.13 A second explanatory workshop will be held in March to discuss the OFFER working papers on reforms within the Pool and trading outside the Pool.
Third Party Working Papers and Associated Explanatory Workshop

6.14 The Pool and NGC have agreed to provide additional working papers. These and any further papers, for example from customers, suppliers and generators arguing

for particular positions will be published in early April. These third party papers will provide the focus for a third workshop to be held in early April.

First Public Seminar

- 6.15 The published papers, along with views of respondents, will provide the basis for the first public seminar to be held on 15 and 16 April which would be chaired by the DGES. The two day seminar will be organised to discuss issues around proposals for trading within the Pool and issues around proposals for trading outside the Pool. The aim is to secure an organised examination of the main issues, so that maximum light can be shed on the subjects and a due and open process can be seen to have been followed.

Second Public Seminar

- 6.16 A second seminar on 15 June will discuss the interim conclusions which would be published prior to the seminar. The seminar will be informed by an OFFER paper suggesting what kinds of changes most merited further attention. This will give an indication of OFFER's initial thinking and enable interested parties to participate more effectively in discussion, and inform the further development of proposals.
- 6.17 Interested parties will have an opportunity to comment on the papers that OFFER produces and on the seminar papers and discussion. The comments will inform the development of proposals and will be placed in OFFER's Library.
- 6.18 The final report to the Minister will be published in July.

7 PROPOSED TERMS OF REFERENCE

7.1 In the light of the foregoing discussion the following are proposed for the terms of reference for the Review.

Overall Purpose of Review

7.2 To consider whether and if so what changes should be made to wholesale electricity trading arrangements in England and Wales, and to provide advice accordingly to the Minister for Science, Energy and Industry.

Objectives of the Review

7.3 To consider what changes to the electricity trading arrangements will:

- meet the needs of customers with respect to price, choice, quality and security of supply;
- enable demand to be met efficiently and economically;
- enable costs and risks to be reduced and shared efficiently;
- provide for transparency in the operation of the pricing mechanism and the market generally;
- enhance the ability to respond flexibly to changing circumstances in future;
- promote competition in electricity markets, including by facilitating ease of entry into and exit from such markets;
- avoid discrimination against particular energy sources; and
- be compatible with government policies to achieve diverse, sustainable supplies of energy at competitive prices and with wider government policy, including on environmental and social issues.

Further Considerations

7.4 In doing so, to consider the implications of, and for:

- the role of the National Grid Company with respect to trading within and outside the Pool;
- the development of competition in generation and supply;
- trading arrangements in Scotland;

- the development of contracts markets (including for physical delivery, contracts for differences and futures contracts);
- interactions between electricity and gas;
- legislation on competition and utility regulation in Great Britain and the European community; and
- other government policy initiatives including on energy sources for power stations and generator emissions.

Scope

7.5 To examine:

- the Electricity Pool of England and Wales, including the interconnectors with Scotland and France ;
- possible revised arrangements for trading inside an electricity pool; and
- possible revised arrangements for trading outside an electricity pool.
- governance of the electricity trading arrangements and the role of the DGES in their regulation.

Deliverables

7.6 To:

- review and evaluate experience in the Pool to date;
- identify the most important changes in Pool arrangements, on the basis that all trading continues within the Pool;
- consider the implications of allowing trading outside the Pool, including arrangements for access to transmission and distribution facilities, maintaining system stability, setting associated charges, and appropriate changes to Pool procedures;
- evaluate the merits of allowing trading outside the Pool, and of changes to Pool arrangements, both with and without trading outside the Pool; and
- make recommendations for actions, including further analysis as necessary, to identify and implement the appropriate changes to meet the objectives outlined above, and to identify responsibilities for carrying matters forward.

Organisation and Resources

7.7 OFFER will lead the Review, seek independent advice, co-operate with other parties and secure the necessary resources in terms of funds, information and expertise, and in particular will:

- enlist the advice of a panel of independent senior advisers whose role will be to appraise arguments and options put forward, with a view to ensuring that conclusions are reached and explained on the basis of adequate and open evaluations;
- draw on the experience of all interested parties;
- liaise closely with the DTI;
- co-operate with the Pool's own review;
- seek the advice on technical matters of the Pool, the Chief Executive's Office, Pool members and the National Grid Company;
- provide appropriate internal resources to co-ordinate contributions, conduct the Review and ensure a timely report; and
- employ professional consultants with experience in the British electricity industry and with knowledge of international electricity trading arrangements.

Process and Timetable

Process

7.8 Conduct the Review process in a transparent and timely way by:

- informing discussants about relevant developments and analysis, including from UK and overseas;
- canvassing views widely and facilitating the exchange of views between interested parties;
- taking into account the views of customers, industry participants and other interested parties in reaching conclusions;
- setting out clearly the recommended courses of action and the reasons for recommending them.

7.9 This will be achieved through:

- the publication of OFFER background, working and consultation papers;
- explanatory workshops on:
 - the operation of the electricity trading arrangements in England and Wales;
 - electricity trading arrangements in other countries;
 - possible models for electricity trading arrangements in England and Wales.
- public seminars where options for change will be openly examined and discussed and interim conclusions presented; and
- making publicly available responses to consultation documents, inputs to the consultation process and papers provided by third parties.

Timetable

February	Publication of OFFER background papers on (a) present electricity trading arrangements in England and Wales and related issues and (b) electricity trading arrangements in other countries. Explanatory workshop on issues raised in the background papers.
March	Publication of OFFER working papers on trading arrangements both inside and outside the Pool. Explanatory workshop on the trading arrangements models.
Early April	Publication of the third party working papers on electricity trading arrangements.
15 & 16 April	Explanatory workshop to discuss the third party working papers. Two day seminar to consider possible models for electricity trading arrangements both within and outside the Pool.
Early June	Publication of interim conclusions.
15 June	Seminar on interim conclusions.

July

Publication of final report to Minister on conclusions and recommendations.

APPENDIX - RESPONSES TO NOVEMBER CONSULTATION DOCUMENT

1. Public Electricity Suppliers

East Midlands Electricity plc
London Electricity plc
Midlands Electricity plc
Northern Electric plc
Norweb plc
Scottish Hydro-Electric plc
ScottishPower plc
SEEBOARD plc
Southern Electric plc
South Wales Electricity plc
South Western Electricity plc
Yorkshire Electricity Group plc

2. Electricity Consumers' Committees

Electricity Consumers' Committees (Chairmen's Group)
Electricity Consumers' Committee (East Midlands Region)
Electricity Consumers' Committee (North East Region)
Electricity Consumers' Committee (North West Region)
Electricity Consumers' Committee (South East Region)

3. Other Respondents

Association of Electricity Producers
ALP Energy Limited
BEAMA Metering Association
Professor K G Binmore (at UCL)
Blue Circle Industries plc
BOC Gases
British BioGen
British Ceramic Confederation
British Steel plc
Centrica plc
The Chartered Institute of Purchasing & Supply
Celtic Energy Ltd
Chemical Industries Association
Combined Heat & Power Association
Confederation of British Industry
CO. STEEL SHEERNESS plc
CU Power Generation Ltd*
Eastern Power and Energy Trading Ltd
The Electricity Pool of England and Wales

Energy Intensive Users Group
The Energy Information Centre
Enron Europe Limited
First Hydro
GNI Limited
Alex Henney
Horstmann Timers and Controls Limited
ICI Chemicals & Polymers Limited
The International Petroleum Exchange
IVO Energy Limited
Magnox Electric plc
Major Energy Users' Council
Dr Barrie Murray
The National Grid Company plc
National Power plc
Norsk Hydro (UK) Limited
Nuclear Electric Ltd
OM Energy Solutions AB
Mr John Pickin
PowerGen plc
PRI Limited
Mr S Riddington
RJB Mining (UK) Limited
ROLLS-ROYCE plc
The Strategy & Implementation Consultancy Ltd
Teesside Power Limited
Utility Buyers' Forum
Wood MacKenzie Consultants Limited

* Confidential response