

NETA – One Year On

The New Electricity Trading Arrangements (NETA) were successfully introduced in England and Wales on Tuesday 27 March 2001.

NETA replaced the Electricity Pool whose centralised, inflexible arrangements for setting wholesale electricity prices meant that prices failed to reflect falling costs and increased competition.

NETA put in place market-based trading arrangements, more like those in other commodity markets, together with balancing arrangements to ensure the operation of a secure and reliable electricity system.

Key successes

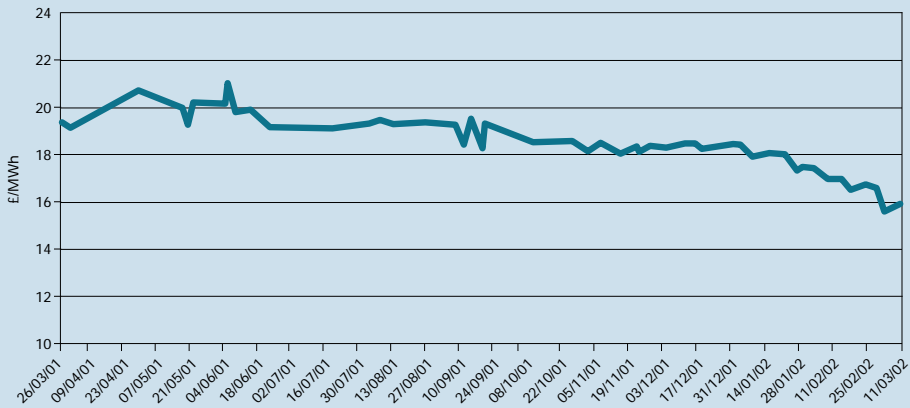
- NETA has delivered more efficient and competitive trading arrangements.
- NETA with falling input prices, a generous capacity margin and more competition in generating have led to substantial reductions of around 40 per cent in wholesale electricity prices since the reforms were proposed in 1998.
- Industrial and commercial customers have reported substantial reductions in their bills. Domestic customers have also benefited, although the wholesale cost component is less in their bills.
- In the past 12 months, liquidity in forward markets has increased by 150 per cent.
- NETA systems have proved robust even with the collapse of Enron – the world's largest energy trader.
- More than 98 per cent of electricity is sold like any other commodity, with on average only two per cent of sales taking place in the balancing mechanism.

Lower prices under NETA

Prices for forward contracts, per megawatt hour, have fallen since Go-Live.

These price cuts are feeding through to customers' bills. Industrial and commercial contracts are most responsive to wholesale changes and so have seen the fastest drops. Domestic prices have also started to fall – but this picture is more complex.

Forward prices



- Suppliers often have long-term wholesale contracts which means changes in prices take time to feed through to customers
- Domestic customers often pay for a joint 'dual fuel' package which combines rising gas prices with falling electricity prices, and
- Price cuts are partly counteracted by new costs relating to environmental measures such as the Energy Efficiency Commitment and the Renewables Obligation.

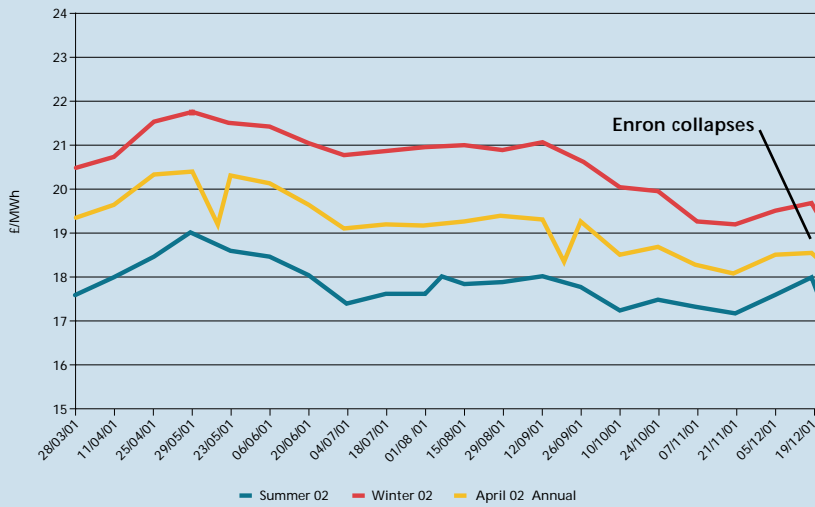
Emerging market liquidity



The amount of electricity traded every month in 2001 was consistently higher than the amount traded every month in 2000. In some instances, the increases were three-fold.

The variety of contracts being struck has increased. Examples of contracts being agreed include seasonal peak contracts that extend beyond one season ahead.

Robust arrangements



The system has operated smoothly throughout its first year of operations including the collapse of Enron.

Flexible governance

The Balancing and Settlement Code (BSC) is managed by a separate company called ELEXON.

To date, participants have put forward 71 modification proposals to the BSC. Of those, 26 decisions have been made and 13 approved by Ofgem, while 36 are still being processed.

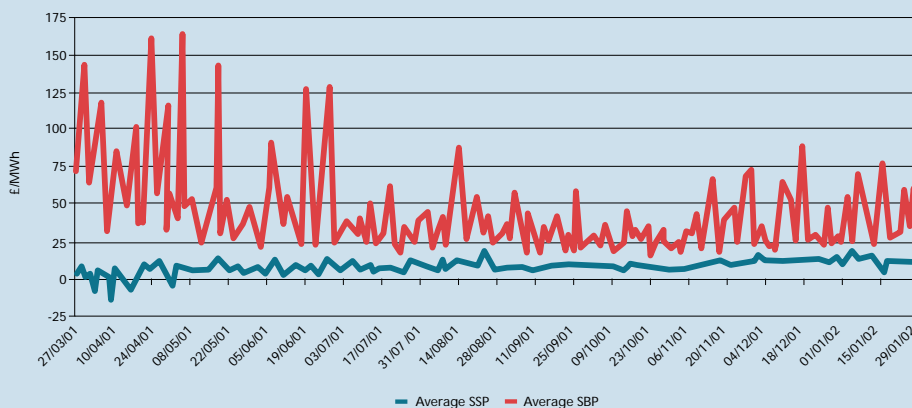
These governance arrangements have worked well to allow for adjustments to the BSC to be made quickly to deal with issues as they have arisen.

Balancing the system

The costs of balancing the system on a daily basis have reduced since NETA Go-Live. This has been the result of National Grid Company (NGC) responding to its incentives as system operator – and greater competition in the provision of balancing services.

This has also enabled Ofgem to tighten the SO incentives on NGC for next year.

Imbalance prices



The spread between the System Sell Price (SSP) and System Buy Price (SBP) has reduced substantially since Go-Live. Overall, participants have managed their business so not to be exposed to SBP.

Smaller generators and demand-side participants

Working groups looking at consolidation services and demand-side participants, i.e. customers who find it more profitable to sell their electricity than use it, have been set up.

These groups are aimed at:

- reviewing the range of options available to smaller generators and demand-side participants
- identifying any practical or commercial obstacles to their participation in NETA, and
- recommending measures to remove them.

The Consolidation Working Group (CWG) has set out ways to enable smaller generators to sell the electricity they produce with greater flexibility.

Some demand-side participants are actively participating in the provision of balancing services. Ofgem is working through the Demand-side Working Group to remove any barriers to further participation.

Also, modifications to the Balancing and Settlement Code (BSC) have been made to make it easier for these areas to participate in NETA.

Major issues for the future

Tackling issues surrounding the transmission network, and extending the new arrangements to Scotland, will finish the job of reforming the electricity market begun by the implementation of NETA.

Transmission access and losses

Reforms to the electricity transmission network arrangements have been on the agenda and debated with the industry since privatisation.

Ofgem has now put forward proposals for these reforms to be taken forward to secure future electricity supplies, ease network congestion, safeguard customers' interests and help protect the environment.

Scotland

Reforms to the Scottish generation market are underway to create British-wide Electricity Trading and Transmission Arrangements (BETTA). These reforms will bring more competition to the Scottish market, putting greater pressure on customer prices which are currently nine per cent higher than England and Wales.

They will also create a wider market for traditional and new renewable forms of Scottish generation.

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