

# Information note

17 July 2012

## UPDATE ON OFGEM'S WORK TO IMPROVE WHOLESALE POWER MARKET LIQUIDITY

Ofgem has published an update on the progress of the Big Six suppliers in opening up the wholesale power market to improve retail competition.

Wholesale power liquidity continues to increase as all of the Big Six are now signed up to trade a proportion of their power station output in the day ahead market, where power is sold for use the next day.

Some independent suppliers also say their ability to buy wholesale power from Big Six companies in forward markets has improved in recent months. This is important as it can help independent suppliers get more of a foothold in the retail market.

However, the volumes of these forward products traded across the whole market still needs to be increased. As well as facilitating competition in the energy retail market, an increase in trading of these products is important for generating robust reference prices on which power station developers can base decisions on whether to invest in new plant. Robust reference prices are also needed to enable the Government to implement contracts for difference to encourage growth of low-carbon generation as part of its Electricity Market Reform.

Ofgem is therefore continuing to develop proposals for mandatory auctions by the Big Six. We are actively seeking feedback from independent suppliers on improvements to liquidity so far, which will inform our decision this autumn on whether to introduce these auctions. We will also explore ways of making sure that progress already made by the industry in improving liquidity is secured and strengthened if necessary.

-Ends-

### Notes to editors

1. Ofgem's liquidity update letter can be found here:

<http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>

2. In February this year Ofgem set the market three objectives for improving liquidity. They are as follows:

- *Availability of a range of products which support hedging by helping independent suppliers buy power in the forward markets so they can more easily compete against the Big Six.*
- *Robust reference prices showing how much power would cost in forward markets – which is important for signalling when energy companies should invest in new power stations.*
- *Effective short/near term market – which also helps independent suppliers buy power they need for their customers.*

In its February consultation Ofgem proposed mandatory auctions for the Big Six companies should these objectives not be met. These auctions would mean the Big Six would have to sell 25 per cent of their power output in a variety of different products, much of which will be on the forward markets. This represents nearly half of all household power use in Britain. Ofgem continues to develop this proposal taking into account feedback from market participants to the consultation. Few respondents to the consultation suggested that a larger obligation than 25 per cent was necessary.

More background on the February consultation is available here:

<http://www.ofgem.gov.uk/Media/PressRel/Documents1/liquidity%20feb%202012.pdf>

### 3. Progress of liquidity in the day ahead market:

Day-ahead auction traded volumes currently hover around 5 terawatt hours (TWh). This is around five times the levels seen this time last year.

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