

NOTICE UNDER SECTION 11A(2) OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (“the Authority”) hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (“the Act”) as follows:

1. The Authority proposes to modify the electricity generation licences held by the licensees specified in Schedule 1 to this notice granted or treated as granted under section 6(1)(a) of the Act by introducing a new proposed special condition “Liquidity in the Wholesale Electricity Market.” The full text of the proposed modification is set out in Schedule 2.
2. In summary, the reason why the Authority proposes to make this licence modification is to give effect to its policy to improve liquidity in wholesale electricity markets. The licence modification:
 - I. introduces rules to improve access to the wholesale market for small market participants by establishing a framework through which small suppliers can seek agreements to trade with obligated generators;
 - II. introduces an obligation to post bids and offers available to the wholesale market to ensure that all market participants have opportunities to trade every day in a range of peak and baseload products along the curve; and
 - III. introduces a requirement to submit regular reports to the Authority to facilitate an assessment of the level of liquidity in wholesale electricity markets.
3. The effect of this proposed modification is to ensure that prices for wholesale electricity market products are visible; to improve conditions for existing independent suppliers and generators operating in the wholesale electricity market by ensuring regular opportunities to trade; and to contribute to making conditions more favourable for new entrants to the wholesale electricity market through ensuring that there are both visible prices and regular opportunities to trade.
4. Further details and background on these proposed changes are set out in the following documents:
 - I. Wholesale power market liquidity: final proposals for a ‘Secure and Promote’ licence condition, 12 June 2013. ([link to document](#))
 - II. Wholesale power market liquidity: statutory consultation on the ‘Secure and Promote’ licence condition, 20 November 2013. ([link to document](#))
5. A copy of the proposed modifications and other documents referred to in this notice are available on the Ofgem website (www.ofgem.gov.uk).
6. Any representations on the proposed licence modifications may be made on or before 18 December 2013 to Graham Knowles, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to gb.markets@ofgem.gov.uk.

7. All responses will normally be published on Ofgem's website. However, if respondents do not wish their responses to be made public then they should clearly mark their responses as not for publication. Ofgem prefers to receive responses in electronic form so they can be placed easily on the Ofgem website.
8. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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**Joanna Whittington, Partner, Wholesale Market Performance, Duly authorised
on behalf of the Gas and Electricity Markets Authority**

Date

Schedule 1

List of obligated licensees

Parent group	Licences held
Centrica	Centrica Barry Limited Centrica Brigg Limited Centrica KL Limited Centrica KPS Limited Centrica Langage Limited Centrica PB Limited Centrica RPS Limited Centrica SHB Limited
Drax	Drax Power Limited
EDF Energy	EDF Energy Nuclear Generation Limited EDF Energy (Jade Power Generation Limited) EDF Energy (Sutton Bridge Power Limited) West Burton Limited British Energy Generation (UK) EDF Development Company Limited EDF Energy (West Burton Power) Limited NNB Generation Company Limited Fallago Rig Windfarm Limited
E.ON	E.ON UK plc Citigen (London) Limited Enfield Energy Centre Limited E.ON Climate & Renewables UK Rampion Offshore Wind Limited E.ON Climate & Renewables UK Humber Wind Limited
GDF Suez	GDF Suez Teeside Limited GDF Suez Shotton Limited GDF Suez Marketing Limited Rugeley Power Generation Limited Indian Queens Power Limited Saltend Cogeneration Company Limited Deeside Power Limited First Hydro Company International Power plc IPM Energy Trading Limited
RWE	RWE npower plc Npower Cogen Trading Limited Gwynt Y Mor Offshore Wind Farm Limited NPower Direct Limited Gallop Wind Farm Ltd RWE Npower Renewables (Stallingborough) Limited Triton Knowle Offshore Windfarm Ltd Channel Energy Ltd
ScottishPower	ScottishPower Generation Limited ScottishPower (DCL) Limited ScottishPower (SCPL) Limited ScottishPower Renewables UK Limited

SSE	SSE Generation Limited SSEPG (Operations) Limited Medway Power Limited Keadby Generation Limited Fibre Power (Slough) Limited Greater Gabbard Offshore Wind Farm Limited Uskmouth Power Company Limited Keadby Developments Limited Clyde Wind Farm (Scotland) Limited Griffin Wind Farm Limited Gallopier Wind Farm Limited Beatrice Offshore Windfarm Limited
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Schedule 2

Proposed Special Condition to be inserted in the electricity generation licence of licensees specified in Schedule 1

Electricity Generation Licence

Special Condition AA: Liquidity in the Wholesale Electricity Market

AA.1 Paragraphs AA.2 to AA.5 shall cease to have effect in this licence on such date as the Authority may specify in a direction given to the licensee or to all Relevant Licensees.

AA.2 The licensee shall with effect from such date or dates as the Authority may specify in a direction given to the Licensee:

- (a) comply with the requirements in Schedule A to this condition;
- (b) subject to paragraph AA.3, comply with the requirements in Schedule B to this condition; and
- (c) report, in accordance with the requirements in Schedule C to this condition, to the Authority in respect of its compliance with Schedule A and (subject to paragraph AA.3) Schedule B and in respect of the other matters specified in Schedule C.

AA.3 If, at the time at which the Licence was modified to include this condition AA, the Authority gave notice to the licensee that this paragraph AA.3 shall apply in the Licence, a direction to comply with the requirements in Schedule B shall not be given without the consent of the licensee.

AA.4 For the purposes of this condition the "**relevant objective**" is facilitating competition in the generation and supply of electricity, by promoting:

- (a) the availability in the market of Products which enable persons that supply electricity to hedge their positions into the longer term;
- (b) the availability of robust reference prices for Products for delivery in the longer term with a view to the development of liquidity in the market.

AA.5 For the purposes of this condition:

"Product"	in paragraph AA.4(a) has the meaning given in Schedule A and in paragraph AA.4(b) has the meaning given in Schedule B;
"Relevant Licensee"	means the holder of a generation licence which includes this condition;
"market"	means the wholesale electricity market in Great Britain.

LIQUIDITY LICENCE CONDITION

SCHEDULE A

1. The requirements in this Schedule apply with a view to the achievement of the relevant objective in paragraph AA.4(a) of this condition.

Request for Trading Agreement

2. The licensee must acknowledge receipt of a written request for a Trading Agreement (a **Request**) from an Eligible Supplier within 2 working days after receipt.
3. The licensee must send a written response to the Eligible Supplier within 20 working days of receipt of a Request. Where a Request is incomplete, the licensee must specify what information is required for the purposes of completing the Request. The number of working days taken by the Eligible Supplier to complete an incomplete Request will not count towards the 20 working day limit.
4. The written response must include:
 - i. an offer to enter into a Trading Agreement which shall include all the terms and conditions of such agreement; or
 - ii. an explanation of the reasons why the licensee has determined that it is unable to offer a Trading Agreement to the Eligible Supplier.
5. The licensee shall take all reasonable steps to ensure that any subsequent negotiations on the Trading Agreement with the Eligible Supplier proceed in a timely manner. Where the licensee and the Eligible Supplier fail to reach an agreement within 40 working days from the date of the licensee's written response, the licensee shall, within 5 working days after that, write to the Eligible Supplier summarising any unresolved or disputed matters and offering a meeting within 20 working days from the date of writing.
6. The licensee must continue to negotiate with the Eligible Supplier until the Eligible Supplier and the licensee agree that negotiations should no longer continue.
7. The licensee shall retain all information, data, correspondence and the Credit Transparency Form with regards to any Request for a Trading Agreement for three years from the date of the Request for a Trading Agreement.

Credit terms and Collateral arrangements

8. The licensee's offer under paragraph 4(i) must include credit terms and collateral arrangements that are consistent with paragraph 9.

9. The credit terms and collateral arrangements offered by the licensee must be a reasonable reflection of the risks of trading with the Eligible Supplier. For this purpose, the licensee must :
- i. assess the credit worthiness of the Eligible Supplier by reference to a range of relevant information, including information submitted by the Eligible Supplier;
 - ii. follow an established process for assessing credit worthiness;
 - iii. consider, and where appropriate, discuss a range of credit options with the Eligible Supplier; and
 - iv. ensure that the credit terms and collateral arrangements offered reflect the outcome of the assessment, consideration and discussion under paragraphs i. to iii.,

and, if required by the Authority, the licensee must demonstrate to the Authority that it has done so.

10. The licensee must complete and submit to the Eligible Supplier with its offer a Credit Transparency Form setting out the basis for its credit decision.

Named Contact

11. The licensee shall provide on its website:
- i. a named contact or contacts for the purposes of making a Request for a Trading Agreement; and
 - ii. a list or description of all the information required from an Eligible Supplier to enable the licensee to make an offer under paragraph 4(i).

Request to trade in Products

12. Where a Trading Agreement is in force between a licensee and an Eligible Supplier, the licensee must provide a quote in response to a qualifying request to trade:
- a. received on a working day before 2.00 pm, within 3 hours after receipt;
 - b. received on a working day after 2.00 pm, or on a day which is not a working day, by 11.00am on the next working day.

A qualifying request to trade is a request from an Eligible Supplier to buy or sell any Product in a volume of 0.5 MW or any integral multiple thereof not exceeding 10 MW.

13. The licensee's quote shall stipulate the period within which it may be accepted, which shall be a reasonable period based on the licensee's view of prevailing market conditions.
14. If the Eligible Supplier accepts the quote within the period stipulated, the licensee shall enter into a transaction with the Eligible Supplier under the Trading Agreement on the basis of the accepted quote.

Pricing

15. The licensee's quote must be as good as the best price that is available to the licensee in the market for the relevant Product at the relevant time; provided that

the quote may include (but where included, must itemise separately):

- a. an objectively justifiable risk premium to reflect the risk (if any) to the licensee of trading in volumes smaller than those available to the licensee in the market; and
- b. at cost any wholesale market trading fees incurred by the licensee in trading the relevant Product.

The licensee may not include any administrative charge or any other internal costs incurred as a result of trading with the Eligible Supplier.

16. For the purposes of this Schedule A:

- (1) **“Credit Transparency Form”** means a form prepared (and as may from time to time be amended) and published by the Authority.
- (2) The holder of an electricity supply licence is an **“Eligible Supplier”** in any year where the Authority has included such holder in a list published for such year of eligible suppliers for the purposes of this condition.
- (3) **“Product”** means each of the products in the table below (where product means a traded electricity product for delivery in Great Britain, including a product settled financially):

Baseload	Week+1 Month +1 Month +2 Quarter +1 Season +1 Season +2 Season +3 Season +4
Peak	Week+1 Month +1 Month +2 Quarter +1 Season +1 Season +2 Season +3

In the table above, Peak, Baseload, Week, Month, Quarter and Season have their generally accepted meanings as applicable in the market at the relevant time.

- (4) **“Trading Agreement”** means a master agreement for trading electricity.
- (5) **“Working day”** means a day on which Products are traded in the market.

LIQUIDITY LICENCE CONDITION

SCHEDULE B

1. The requirements in this Schedule apply with a view to the achievement of the relevant objective in paragraph AA.4(b) of this condition.

Posting prices

2. The licensee shall simultaneously offer to buy and sell each of the Products, by posting on a qualifying platform in accordance with paragraph 5, at times which comply with the requirements of paragraph 6, bid and offer prices which comply with the applicable requirements of paragraph 8, for volumes of such Product which comply with the requirements of paragraph 9, subject to paragraphs 7 and 10.
3. The licensee's bids and offers for a Product at any particular time must be posted on the same qualifying platform; but the licensee may post bids and offers for different Products, or (subject to paragraph 6) for the same Product at different times, on different qualifying platforms.

Nominee to discharge requirements

4. (a) Subject to paragraphs 4(b) and (c), the licensee may nominate another person (a "Nominee") to discharge the requirements of this schedule B in relation to any period (comprising a whole number of months), in which case the licensee shall be treated as satisfying such requirements if the requirements are satisfied by the Nominee but not otherwise.

(b) The Nominee must at all times have arrangements in place to trade such Product(s) on any qualifying platform with at least 5 other persons who are not affiliates of the Licensee or the Nominee.

(c) The licensee may not nominate a person as Nominee in relation to a month if that person is also nominated as Nominee in relation to that month:
 - (i) by two other Relevant Licensees, or
 - (ii) if the Nominee is itself a Relevant Licensee or an affiliate of a Relevant Licensee, by one other Relevant Licensee.

Qualifying platforms

5. A qualifying platform is a trading platform in relation to which the following conditions are satisfied at all relevant times:
 - (a) one or more of the Products may be bought and sold on the platform;
 - (b) the platform must be operationally independent from the licensee;

- (c) the licensee must have a reasonable expectation that the relevant Product(s) will be traded on the platform; and
- (d) the operator of the platform must provide trading data relating to the licensee (or Nominee) to the Authority when requested for the purpose of monitoring the licensee's compliance with this Schedule B.

Availability of prices

- 6. (a) Bids and offers for each Product must be posted on a qualifying platform at all times (subject to paragraph (b)) in the periods of 60 minutes (each a "trading window") starting respectively at 10.30 hours and 15.30 hours every working day.
- (b) Where a bid or offer posted by the licensee for a particular Product is accepted, the licensee must post a new bid and offer for the Product within five minutes after the acceptance of the first bid or offer.

Suspension of obligation

- 7. (a) If, at any time in a trading window, a Product has been traded (on any qualifying platform) at a price which is more than 1.04 or less than 0.96 times the price at which the Product was first so traded within that trading window, the licensee may decide to cease posting bids and offers for that Product (as required by this Schedule B) for the remainder of that trading window. Such trades may have been made by the same or different persons and on the same or different qualifying platforms.
- (b) Where the licensee decides to cease posting bids and offers for a Product (as required by this Schedule B) in a trading window under paragraph 7(a), it must:
 - (i) record such decision at the time it is taken, together with details of the trades referred to in that paragraph; and
 - (ii) report the time and date at which it ceased to post bids and offers for such Product (as required by this Schedule B) in its quarterly report to the Authority.
- (c) The licensee's duty to post bids and offers for the relevant Product (as required by this Schedule B) resumes at the next trading window.

Limits on difference between bid and offer prices

- 8. The difference between the bid and offer prices at any time for each Product, expressed as a percentage of the bid price, may not exceed
 - (i) for the first three months from the date specified in the Authority's direction under paragraph AA.2(b) of this condition, the percentage in Table 1 below; and
 - (ii) thereafter, the percentage in Table 2 below:

Table 1

	Baseload	Peak
Month+1	0.7%	0.9%
Month+2	0.7%	0.9%
Quarter+1	0.7%	0.9%
Season+1	0.7%	0.9%
Season+2	0.7%	0.9%
Season+3	0.8%	1.2%
Season+4	0.8%	N/A

Table 2

	Baseload	Peak
Month+1	0.5%	0.7%
Month+2	0.5%	0.7%
Quarter+1	0.5%	0.7%
Season+1	0.5%	0.7%
Season+2	0.5%	0.7%
Season+3	0.6%	1%
Season+4	0.6%	N/A

Trade volumes

9. The volumes of each Product for which bid and offer prices must be posted are:
- (a) subject to paragraph (b), 5MW and 10MW;
 - (b) if the licensee has nominated as Nominee a person who or whose affiliate is itself a Relevant Licensee or is appointed as Nominee by another Relevant Licensee, 5MW, 10MW, 15MW and 20MW.

Volume Cap

10. (a) If at any time in a trading window the difference between the licensee's traded bid volume and traded offer volume in respect of a Product exceeds 30MW, the licensee may decide to cease posting bids and offers for that Product (as required by this Schedule B) for the remainder of that trading window.
- (b) For the purposes of paragraph (a):
- (i) the traded bid volume and traded offer volume in a trading window are the total volumes of a Product for which the licensee's offers respectively to buy and to sell, on any one or more qualifying platforms, have been accepted in the trading window;

- (ii) where the volume for which an offer to buy or sell is accepted exceeds the maximum required volume under paragraph 9, the volume in excess of such maximum will not be counted towards the total traded bid volume or traded offer volume.

European Financial Regulation

11. Where the licensee considers that any amendment or replacement of MiFID or EMIR may materially and adversely affect the ability of the licensee to comply with this Schedule B, the licensee may submit to the Authority a request (which for the avoidance of doubt shall not bind the Authority) to undertake a review of the provisions of Schedule B.

12. For the purposes of this Schedule B:

"EMIR" means Regulation 648/2012/EU on OTC derivatives, central counterparties and trade repositories.

"MiFID" means the Markets in Financial Instruments Directive 2004/39/EC.

"**Product**" means each of the products in the table below (where product means a traded electricity product for delivery in Great Britain, including a product settled financially)

Baseload	Month +1 Month +2 Quarter +1 Season +1 Season +2 Season +3 Season +4
Peak	Month +1 Month +2 Quarter +1 Season +1 Season +2 Season +3

In the table above, Peak, Baseload, Week, Month, Quarter and Season have their generally accepted meanings as applicable in the market at the relevant time.

LIQUIDITY LICENCE CONDITION

SCHEDULE C

1. The licensee must submit a report (“**the quarterly report**”) to the Authority in the format directed by the Authority, in respect of each quarter (the “**Quarter**”) commencing 1 April, 1 July, 1 October and 1 January respectively, containing the Information set out in the Table below no later than 30 days after the end of that Quarter.
2. In the columns entitled Schedule A and Schedule B in the Table, any terms shall have the meanings given in and are to be interpreted in accordance with Schedules A and B respectively.
3. The licensee shall keep, for at least 3 years from the date of the submission of each quarterly report, the Information.
4. The licensee must also provide any Information and the Credit Transparency Forms required by the Authority within five working days upon receipt of a request.
5. For the purpose of this Schedule C:

“**Day Ahead Auction**” means an auction held on the day before physical delivery of wholesale products.

“**Information**” means (a) the information specified by the Authority in the Table annexed to this Schedule, and (b) for the purposes of paragraph 3 and 4, any documents, estimates, records, correspondence with an Eligible Supplier and trade data of any kind used to compile a quarterly report under paragraph 1 of this Schedule.

Schedule A	Schedule B	Additional information
<p>Information on Trading Agreements with Eligible Suppliers for each Quarter:</p> <ul style="list-style-type: none"> List of names of Eligible Suppliers: <ol style="list-style-type: none"> with whom a Trading Agreement has been signed; with whom negotiations are under way; and who have withdrawn from negotiations List of names of Eligible Suppliers with whom the licensee has been unable to offer a Trading Agreement, and the reasons for the rejection. <p>Information on trading activities with Eligible Suppliers for the Quarter:</p> <ol style="list-style-type: none"> the names of Eligible Suppliers with whom the licensee has traded; total aggregate volume of each Product bought and sold; and total aggregate number of trades in each Product <p>The quarterly report must include a statement, signed by a Director of the licensee, confirming:</p> <ol style="list-style-type: none"> the licensee has complied with all the requirements in Schedule A; or if the licensee has not complied, giving details of such failure to comply. <p>The statement shall include:</p> <ul style="list-style-type: none"> a link to where contact details and the list of information required from Eligible Suppliers is hosted on the licensee's website; and a statement that the information is up to date. 	<p>Information on trading activities on qualifying platforms pursuant to Schedule B for each Quarter:</p> <ol style="list-style-type: none"> gross volume traded in each Product, for each month in the quarter; and the total number of trades in each Product, for each month in the quarter. <p>The quarterly report must include a statement, signed by a Director of the licensee, confirming that in respect of the Quarter:</p> <ol style="list-style-type: none"> the licensee complied with all the requirements of Schedule B; or if the licensee has not complied, giving details of such failure to comply. <p>The quarterly report must include the times, dates and an explanation with supporting evidence of the circumstances where a licensee decided to cease posting bid an offers for a Product in a trading window:</p> <ul style="list-style-type: none"> under paragraph 7 of Schedule B; or under paragraph 10 of Schedule B. <p>The quarterly report must include, for each Product:</p> <ul style="list-style-type: none"> the names of the qualifying platform(s) the licensee has used to comply with Schedule B; the name of the licensee's Nominee (if used); where paragraph 4(b) of Schedule B applies, the total number of persons (as referred to in that paragraph) with whom the Nominee has arrangements to trade on the relevant platform. 	<ul style="list-style-type: none"> Gross volumes bought and sold through day-ahead auctions each month