



Response to Liquidity Proposals for the GB wholesale electricity market – 11-Mar-10

BuyEnergyOnline (BEO) is an online trading platform for business buyers of electricity and gas. The trading platform is based on reverse auction for contracts usually for a duration of 12 or 24 months, but we can cover any month duration. All of the suppliers in the UK participate in the auction. It is effectively an automated version of a traditional brokered service for businesses buying gas and electricity. The differentiator is increased competition due to more transparency, more participation and the real-time turn around of revised Offers and comparison analysis within a volatile wholesale market.

BuyEnergyOnline was introduced in 2003 by the same team that launched PowerEx which was a power exchange covering on-the-day, spot and forward markets. PowerEx was launched in 2001, was sold to APX in 2002 and assisted APX acquire Automated Power Exchange, UKPX and the EnMO gas exchange. PowerEx and the other wholesale electricity exchanges failed to attract liquidity post NETA. This was due to the last-minute removal of the fundamental NETA design principle that vertically integrated suppliers had to trade their electricity over a 3rd party power exchange in order to provide market transparency and access for independent suppliers.

BEO is utilising its expertise in the end-user market and wholesale market to launch a wholesale energy exchange for major energy users that consume over 1 MW of electricity, or about 8-9GWh/year. This will involve major energy users submitting bids and offers for wholesale electricity and gas, for trade with each other and with other wholesale energy market participants, using an innovative new contractual mechanism we have developed.

Our Proposed Solution

Our view is that liquidity is critical for the development of competitive, innovative markets, in order to deliver better products to energy users at lower price and lower risk.

We believe that the best solution to the current markets problems is that generators need to offer all or some of their electricity across a 3rd party power exchange, as initially intended by the NETA design rules.

NETA rules have already provided the regulatory and reporting framework by the provision of Production and Consumption accounts. These just need to be kept separate for balancing purposes, as initially intended.

It is the least intrusive approach to impose liquidity to create a transparent, liquid competitive market. It should require the simplest set of rules and regulations to implement and to govern. There are no market inefficiencies associated with regulating this requirement.

Direct Trading Obligation

Our proposal facilitates this best by providing a better facility to achieve the same outcome. 3rd party suppliers will have access to Offers by generators through the 3rd party trading platform.

Market Making Agent

Market maker obligations are a good idea, but more intrusive than a requirement to trade through a 3rd party power exchange. Generators are better at selling or offering electricity and suppliers are better at buying or bidding for electricity. So a more efficient outcome would be if generators are forced to trade their output on the sell side only and suppliers are forced to trade their purchases on the buy side only.

Mandatory Auctions

Auctions are best determined by market participants based on their needs to consolidate liquidity into smaller time periods. APX current approach of auction and continuous trading makes most sense and was determined in discussions with market participants.

Self-Supply Restriction

Similar to our proposed solution of using a 3rd party power exchange, except ours requires both generators and suppliers to trade a portion or all of their electricity this way.

Guarantees

We agree this is a problem for new energy supplier participants, but needs to be managed as a separate issue to market access due to liquidity.

Insights from our Experience Running a Market for End Users

Traditionally business have been interested in 12 and 24 month contracts, which have traded at about an average 15% risk premium to spot prices over the last 5 years. However, the trend is that larger energy buyers have been moving towards month-ahead and spot market in order to secure some of this premium for taking on risk.

We believe these trends will drive more liquidity towards spot markets.

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