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Dear Vanja,

GB wholesale electricity market liquidity: summer 2010 assessment

Thank you for the opportunity to respond to the consultation paper regarding the summer 2010 assessment of GB wholesale electricity market liquidity. This response is on behalf of National Grid Electricity Transmission plc (NGET). NGET is the National Electricity Transmission System Operator and is a transmission system owner in England and Wales.

Background

Because of its position as electricity system operator, NGET is prohibited by the licence governing its activities under the Electricity Act from purchasing or otherwise acquiring electricity for the purpose of sale or other disposition to third parties, except for limited system or balancing activities prescribed in the commercial arrangements governing the electricity industry.

As a result, NGET is not an active participant in the forward market for energy in Great Britain. NGET's limited role tends to lead to its participation in the GB wholesale electricity markets being restricted to prompt trading patterns (i.e. within day and day ahead) in order to ensure the residual balancing of electricity supply and demand and manage system security.

Summary

NGET agrees with Ofgem's assessment of current market performance. NGET continues to be of the view that, in addition to the removal of barriers to entry for smaller market participants, efficiency of pricing and ability of investors in new generation to manage wholesale market related risks; a liquid wholesale market, and hence parties' continued ability to efficiently self-balance, is an important influence on its role as residual balancer.

The remainder of this response provides NGET's thoughts in relation to the specific questions asked within the consultation document.

CHAPTER: Two

Question 1: Do you agree that the proposed framework provides an adequate range of evidence for assessing market liquidity?

The proposed framework includes a wide range of metrics. Given the aim of covering off both the issues of low levels of liquidity and enabling smaller players to meet hedging requirements, National Grid considers a wide range of metrics to be appropriate.

The metrics used should provide adequate evidence to assess liquidity; however they may not capture underlying reasons behind any improvement (or lack thereof). For example, while both metrics 3 and 9 will consider the number of small suppliers trading on exchanges, they will not capture whether credit issues continue to present a barrier to participation.

CHAPTER: Three

Question 1: Do you agree with the assessment of the metrics in this chapter?

The assessment seems reasonable. It recognises that only traded volumes are considered rather than volumes available to trade, so improvements in product availability won't be visible until someone actually wants those products. The difficulties in developing a product where there is no market but which must be available for the market to develop are noted.

Question 2: Do you have any comment on the level of improvement in the metrics that would make a significant difference to market participants?

National Grid does not have a view on the level of improvement needed to have significant impact for most of the metrics. However, for metric 3 (volumes through power exchanges), increased volumes of trade on exchanges is a positive step to increase liquidity. However, establishment of a trusted reference price which is agreed by a majority of participants is required to make a significant difference to market participants.

If you wish to discuss the content of this letter further or have any queries please contact either myself or Ian Pashley on 01926 653446.

Yours sincerely



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