



To providers of relevant power trading services

Promoting choice and value for all gas and electricity customers

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Date: 20 April 2012

Dear Colleague,

Voluntary request for information: Platform delivery

In February 2012, we commenced consultation on detailed proposals to introduce a Mandatory Auction (MA) in the GB wholesale power market.¹ At present we believe this intervention is required to ensure that liquidity in the wholesale market is sufficient to underpin effective competition.

Should the Gas and Electricity Markets Authority (GEMA²) decide to proceed with the intervention, our proposals would require that the six large, vertically integrated players in the GB market (the "obligated parties") regularly sell key products through the MA, with sufficient volume in each product to meet demands of market participants and produce robust prices. We envisage that the obligated parties would be required to sell 25% of their annual generation in this way. An overview of the proposed MA is included at Annex A.

We are considering two possible delivery approaches for the MA: one in which Ofgem would select the platform to host the MA through a procurement process; and one in which obligated parties would individually select a platform through which they would meet their obligation. Both approaches create an opportunity for service providers to support the delivery of the MA, guided by a clear process and objectives.

We are inviting potential service providers to provide useful information

We attach a questionnaire at Annex B and would be grateful for responses. In particular, we would like to better understand the process for building the MA and the associated timing, risks and resource requirements.

This letter does not signal the start of the procurement of the MA platform, or that Ofgem is minded to select the platform providers (approach one). If we do decide to proceed, any platform selection process³ would commence at a later date. Further, information provided by parties in response to this letter will not prejudice the platform selection process and failure to respond will not exclude parties from the process. All responses will be treated as confidential.

¹ Retail Market Review: Intervention to enhance liquidity in the GB power market, <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Liquidity%20Feb%20Condoc.pdf>

² Ofgem is governed by the Gas and Electricity Markets Authority (GEMA). GEMA determines strategy, sets policy priorities and takes decisions on a range of matters, including price controls and enforcement. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998 and the Enterprise Act 2002.

³ Under either approach outlined above

Next steps

Please send any responses to this letter to Phil Slarks at gb.markets@ofgem.gov.uk by 11 May 2012.

Following analysis of these responses and those received in relation to our consultation document, we anticipate publishing a minded-to position and, if appropriate, our final proposals in Summer 2012.

Thank you in advance for your engagement.

Yours sincerely,

Rachel Fletcher
Partner, GB Markets

Annex A: Outline of Ofgem's Mandatory Auction Proposal

This annex outlines the MA model set out in the February consultation document⁴. All aspects of the MA design are still subject to change. For further detail on our MA proposals, please refer to Chapters 4 and 5 of the February consultation document.

Participation

The six large vertically integrated companies (the "obligated parties") would be required to participate and meet their obligation in each monthly auction. Other market participants would be free to participate on either the buy or the sell side of the auction.

The obligated parties would be allowed to operate on the buy-side of the auction, subject to adherence to certain buy-side rules (see below).

Obligation

Each obligated party would be required to sell part of their annual volumes into each monthly auction. Note that this is an obligation to sell, rather than to make volume available in the auction.

Calculation of Annual Volume

The MA would require the obligated parties to sell 25% of their annual generation through this mechanism. In 2011 this was equivalent to a total quantity of around 50 Terawatt Hours (TWh).⁵

The basis for the calculation of the 25% requirement for each individual obligated party would be generation in the previous year, including generation by any affiliate companies.

Platform selection approach

We are consulting on two delivery approaches to the MA:

Approach 1: under this approach there would be a single service provider with whom all the obligated parties would be obligated to contract. The process would be led by Ofgem.

The MA platform specification used in the tender exercise could cover areas such as:

- specification of the products which must be sold in the MA
- auction design
- potential additional points related to the technical specification of the platform
- membership requirements, to ensure accessibility to participants
- charging requirements to ensure that the level and methodology of the platform's fees remain in line with its tender
- requirements as to credit, clearing and collateral.

Approach 2: under this approach, each obligated party would be responsible for selecting and making arrangements with their individually chosen service provider.

Each obligated party would be required to identify and make arrangements with a platform provider to comply with a set of Mandatory Auction Principles. We would establish these Principles. They could include, for example:

- the specification of the auction products
- criteria to be satisfied by any nominated platform

⁴ Retail Market Review: Intervention to enhance liquidity in the GB power market

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=84&refer=MARKETS/RETMKTS/RMR>

⁵ Based on data received from Elexon.

- buy-side requirements or restrictions

Under either option, the provider or providers will be responsible for putting in place the infrastructure for the auction and running the auction process at the appropriate frequency. The infrastructure may be provided by an existing platform or one developed specifically for this purpose.

We expect that any platform provider offering the MA service should be able to offer:

- the external interface with buyers and sellers
- robust auction mechanism which brings together bids and offers
- function to collate and report data – such as bids and offers
- clearing facilities.

Products offered

The table below sets out an indicative list of products and volumes that could be supported by the MA. It is important to note that this list could change as a result of consultation with stakeholders. Once the MA is in operation, the governance process would facilitate changes to the product list through a joint process with Ofgem and industry.

Indicative list of products and volumes		
Products	Annual Volume	
	Baseload	Peak
Balance of Front Month	1.3 TWh	1.3 TWh
Month+1	1.3 TWh	1.3 TWh
Month+2	1.3 TWh	1.3 TWh
Quarter+1	2.6 TWh	1.9 TWh
Season+1	5.3 TWh	2.6 TWh
Season+2	5.3 TWh	2.6 TWh
Season+3	5.3 TWh	2.6 TWh
Season+4	5.3 TWh	2.6 TWh
Season+5	5.3 TWh	-
Annual Total	49.2 TWh	

Governance

Ofgem would continue to have oversight of the operation of the MA on an ongoing basis. Market participants would also be able to feed into the set-up and ongoing implementation of the MA: for example, they would be able to suggest changes to the list of products sold through the MA. In general, governance arrangements would need to enable the MA to respond to market developments.

Annex B: Questionnaire

1. What is your experience in providing platform services similar to that outlined above and/or of participating in similar schemes?
2. From your experience, how readily available are the types of platform which we have outlined, and to what extent is a bespoke solution required?
3. Given your answer to question two, can you provide an outline of the resource requirement and time needed to:
 - a. develop such a platform service
 - b. provide ongoing operation of the service?

If possible, please provide an indication of the costs associated with the resources necessary for (a) and (b).

4. What are the additional costs and time requirements of implementing changes to the service provided – for example, changes to the lists of products for sale?
5. Can you outline any contractual terms and conditions (and if relevant, the duration of these terms) which you might anticipate existing between you and other parties involved in the MA?
6. Do you foresee any risks associated with the costs and timeframes identified?
7. What information would be useful for you to have to inform any submissions you made to a tender process?