

Camilla Eggington
GB Markets
Ofgem
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London
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3rd May 2012

Dear Camilla,

Consultation on GB power market liquidity

Thank you for your invitation to respond to the above consultation. As you are aware, Good Energy is a small, licensed electricity supplier of 100% renewable electricity to over 28,000 customers; sourced from a community of around 25,000 small and decentralised generators across the UK. We also supply gas to over 5,000 customers on a tariff which supports the development of renewable heat.

For your convenience we have answered your questions below, expanding where necessary.

1. Do you agree with the objectives that we have identified?

Yes. Although availability of products should include supporting the provenance of the generation thus including both brown and green energy.

2. Do you think there are other objectives we should be considering?

Yes. We believe that improved credit terms are an essential part of including liquidity. Currently, smaller suppliers are able to negotiate innovative solutions with counter-parties. However, if the larger companies cease to offer bi-lateral terms in order to meet their auction obligation, then these solutions could be lost and trading become more onerous on suppliers. We do not support the view mentioned further in the consultation document, that credit terms will sort themselves out.

3. Do you agree with our views on market developments since summer 2011?

Good Energy predominantly trades in the near term market in order to balance our demand with our portfolio of renewable generators. We have seen some increase in liquidity in the near term, but do not believe this liquidity is yet sufficient across all time periods, and still see limitations on clip sizes.

4. What specific further developments would be necessary to meet our objectives?

The issue of credit terms need to be addressed. Improving liquidity along the curve could be undermined if smaller parties are unable to tie up the cash collateral required in credit until the energy is used. If smaller parties did not have to provide onerous credit requirements or could provide alternative collateral to cash (or LoC), then they would be able to buy further out, thus improving liquidity as larger players would see greater demand for products.

5. Do you agree that objectives one and two are current priorities given market developments?

Yes. This is because the near time market is inextricably linked to imbalance and cash out which Ofgem is proposing to review, rather than the fact that liquidity in the near term market is sufficient. Ofgem should look at Cash out and the near term market at the same time. Good Energy principally trades in the near term market to balance its portfolio of intermittent renewable generators and whilst improved, we do not agree that the near term market is sufficiently liquid.

6. Do stakeholders agree that the MA is the appropriate mechanism to meet our immediate objectives?

We agree that the MA is the most appropriate of the proposed mechanisms put forward, but have several reservations about its introduction. Firstly, we are concerned that the obligation on the larger parties may result in the withdrawal of bilateral arrangements, thus increasing auction liquidity at the expense of bilateral arrangements rather than increasing liquidity overall. This is of particular concern as bilateral arrangements may include more innovative solutions to credit collateral which will not be available via the MA. We also note that the current increase in near term liquidity is as a result of actions by some big6 participants and therefore we have a concern that these improvements may stall once the MA obligation kicks in.

Our second concern is that we do not believe it delivers the robust reference prices needed for EMR to deliver a FIT with CFD solution. Under this proposal, then up to 75% of trades will be excluded from derivation of the market price. This is significant as some of the major parties within the auction are likely to be significant beneficiaries of the FIT with CFD mechanism. We believe that the market price should be derived from all trades above a certain size to create a transparent and robust market price. Not one derived from just 25% of trades. We therefore believe in the traffic light system in the consultation the MA is “amber” rather than “green” in this respect.

7. Do you agree that, at the present time, the other mechanisms identified would not be appropriate for Ofgem to pursue?

We are supportive of pursuing one mechanism first, and the MA being that first mechanism. However, for the purposes of EMR, then further work needs to be undertaken to create a robust reference price.

8. Do you agree with the key features of the MA we have set out?

Yes, although we feel that the MA should include the providence of the generation traded so that Supplier’s fuel mix disclosure is as accurate as possible. We also feel that Ofgem should address the credit issue as a key design feature in the auction. Without this being addressed, then the only likely participants further out are the big6 and traders buying to sell on at a later date.

9. Do you consider it appropriate to have buy-side rules in place and do you have any comments on the detail of such rules?

Whilst such rules are useful, they are overly simplistic in a complex environment of energy trades. We support these buy-side rules but also believe that an over reaching licence condition to not act in a manner to bring the auction into disrepute should be included.

10. Do you consider that there are benefits and risks to the approaches that we have not identified?

Under approach two there exists the danger that the auction process is skewed in favour of the obligated party as they will be the most important participants of the process. This will be further embedded if they have the right to make changes to the contract arrangements as time progresses.

11. Which approach do you consider is best placed to deliver our objectives at least in terms of cost and risk?

On balance we would favour option 1, although believe option 2 could be used if the development process was more inclusive of likely participants.

12. Do you consider that both approaches are able to meet our objectives?

Yes.

I hope you find these responses useful, if you would like to discuss any of the points we have raised further, please contact me.

Kind regards,

A handwritten signature in black ink that reads "Chris Welby". The signature is written in a cursive style with a large, looping 'y' at the end.

Chris Welby
Policy & Regulatory Affairs Director