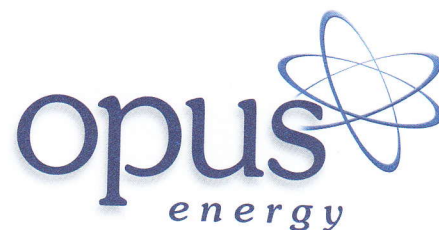


Camilla Egginton
GB Markets
Ofgem
9 Millbank
London
SW1P 3GE



8 May 2012

Dear Camilla

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

Please find below the response from Opus Energy to the above consultation.

Opus Energy is an independent supplier of electricity and gas to the UK business sector. Typically classed as a "smaller/independent supplier", Opus Energy supplies to around 130,000 businesses including SMEs and large Corporate groups.

Question 1: Do you agree with the objectives we have identified?

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

We agree with the objectives identified. We consider that encouraging new trading entities into the wholesale markets should also be a primary objective.

To ensure the growth and survival of independent suppliers, it is essential that there are *independent* counterparties, actively trading in the wholesale markets, who are willing to offer the products that independent suppliers need – ie shape, granularity and credit solutions.

The "Big 6", as vertically-integrated, incumbent suppliers, holding the vast majority of market share are not natural providers of these products. It is not in their commercial interests to support the growth of independent suppliers. They may, when the threat of regulatory intervention is thrust upon them, offer terms to independent suppliers for some period of time. However, an independent supplier cannot risk investing in a growth strategy where it is dependent upon its competitors for its wholesale product.

The above, combined with the fact that smaller independent suppliers are also not natural users of products offered by auction (since collateral provisions are likely to be prohibitive) leads to the conclusion that Ofgem's objectives need to include a wholesale market where a variety of participants are actively trading, ie not just six large vertically integrated players that together own 99% of the retail market share.

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

Yes. However, there seemed to be a consensus developing across the markets that one of the main reasons for a lack of liquidity beyond 18 months was due to reluctance by participants to trade and that this reluctance to trade was driven by regulatory uncertainty over carbon pricing. Perhaps addressing this issue would assist with the drive to return liquidity to the forward curve.

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

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

We agree that drastic change is needed if a healthy wholesale market with a variety of trading participants is to re-emerge. We consider that the proposed MA would offer this drastic change and would “shake-up” the current situation we find ourselves in – ie a market place where 6 large players bilaterally trade their short and long positions amongst themselves.

It is possible that a 100% self-supply restriction or a large-scale Market Maker may also achieve this end.

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

Question 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?

Bearing in mind the view we expressed above, that drastic change is needed, we consider this change could be most efficiently achieved in a number of ways. Further discussion and exploration of these ideas may be worthwhile.

For example a suggestion was raised in one of the workshops that: mandated parties should be restricted to the sell side of the auction, but that the volume required to be released be reduced to a smaller amount. This would not be so onerous on the big 6, but would be likely to attract new trading parties to the markets.

These trading parties would be attracted by the arbitrage opportunities offered by the release of volumes and/or may be tempted to purchase the released volumes in order to support a new venture into the retail sector, in competition to the “Big 6”. Alternatively they may choose to offer these volumes to existing independent suppliers, acting as a financial intermediary and creating the products that the smaller suppliers require (ie with appropriate solutions for shape, granularity and credit).

In summary, we consider that radical change is needed in the UK wholesale electricity market, and that with some further evolution, Mandatory Auctions appear the best solution to achieve this.

If you have any questions on any of the views above, please do not hesitate to contact me.

Yours sincerely,



Louise Boland
Director

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