

Ofgem
GB Markets

Attention Camilla Egginton / Phil Slarks

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Dear Camilla and Phil

Retail Market Reform: Intervention to enhance liquidity in the GB power market consultation

Statkraft is Europe's leader in renewable energy. The Group develops and produces hydropower, wind power, gas power and district heating, and is a major player on the European energy exchanges. Statkraft is committed to the UK market and hopes to make significant further investments in new generation capacity. These investments will make an important contribution to security of supply and de-carbonisation, and will also help to increase competition in the UK power market and to increase market diversity and liquidity. Any investment case will be subject to an adequately robust policy framework.

Statkraft is still fairly new to the UK power market, but has developed into being a medium sized independent generator of renewable generation. In spite our growth in the UK market, we have encountered several challenges that have made our entry to the UK power market more cumbersome than should have been necessary. Statkraft therefore welcomes the initiative of OFGEM to address the issues around liquidity in the wholesale market and is pleased to present our views on how the UK power market should develop to the better for the smaller and independent market participants and ultimately the consumers.

Q1: Do you agree with the objectives we have identified?

Statkraft agrees to the three dimensions presented, however it is in our opinion wrong to address the three issues separately. An effective near time market will/should serve as foundation for setting a robust reference price. As soon as the market believes in an explicit reference price which cannot be easily manipulated by individual market players, it is likely that both market participants and trading platforms will drive the process of offering products which support hedging.

The current very positive developments in the near-term market might enable the three main objectives of this consultation to be met. Statkraft would therefore agree to the objectives presented being essential, however, does not see a need to impose interventions upon the market/some market participants at this point in time.

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

There are at least two very important objectives that have not been given the necessary attention in the consultation;

- 1) Obstacles for market entry: a prerequisite for increased competition and liquidity
 - o Dual trading accounts (P & C accounts)

Ensuring small and medium sized market participants an easier access to the physical market is a necessity to attract a more volume, which in turn increases competition. The current limitation to allow MVRN only between respectively C- or P- accounts results in further fragmentation of the volume generated by these independent generators. In addition, smaller players are by the existing dual-account structure being exposed to imbalance prices which bigger players with greater portfolio benefits.

By allowing MVRN across from P to C or the other way around, smaller players will be able to actively take part in the market both for hedging purposes, but also in the near-time market, with ONE aggregated position representing their entire portfolio. This will enable greater competition in the market for PPAs and should therefore ultimately lead to lower prices for the consumers. Statkraft has proposed a Modification Proposal to enable such a simplification and would welcome also such measures to be considered in order to reach the overall goal of further increased market liquidity and an increased number of market participants.

- 2) Market Information: Transparency of generation, maintenance plans, unplanned outages

Physical generators and off-taking market participants above a certain size in the UK, experience probably the most demanding information requirement in Europe when it comes to communication of operational data. At the same time, this data is not made available to ALL the market participants in a holistic and cost efficient way. In particular live data regarding actual production from individual power plants/BM units is only available to the wider public by a complicated search mechanism on the online service of Elexon. Alternatively, the costly and significantly more complicating process of accessing the information via the high-grade link to BM reports is not an option for smaller market entrants with limited initial resources. This "exclusive" access to data for large and established players represents a strong preventive mean for new entrants considering entry to the market.

REMIT addresses the issue of transparency, however puts the responsibility for presenting the data on the individual market participants. This represents a danger to the existing central collection of data already existing in the UK, as essential data will end up more fragmented and difficult to monitor for the entire market.

The existing service is of use since it allows for particular historical data, however, it does not allow for an ongoing monitoring of the market, although all the information is made available to National Grid through actual metering in addition to EDT&EDL data. An idea could be to make the live generation information available, in a simplified format and at no or just very low costs.

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

Referring to our answer to Question 1, Statkraft is of the opinion that there is a positive development regarding also objective one and two. A further improvement for all objectives should be expected as long as there is a positive development in relation to objective three.. The Day Ahead auction-volumes in the UK have experienced an extraordinary growth over the last 3 months. The current level of around 10-11 GWh/hour is a great step towards the levels observed at the other comparable continental markets and this behaviour from the larger generators should be met with encouragement for further increase, not ignored and replaced by forced measures.

As set out under question 2 we think there are improvements related to market transparency and obstacles for market entry that should be undertaken in order to underpin a positive development of liquidity. The market needs to be monitored in order to ensure a consistent development and stabilization of high market liquidity on a permanent basis. Should the volumes traded in the near-time market be reduced, other measures needs to be considered. This could include MA, given there is a proper legal basis justifying this.

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

We have under question 2 pointed to the need to reduce obstacles for market entry as well as for improve transparency in the form of easy access to market information. Other than that, we do not at present see a need for additional developments. Given a positive trend lately we believe the market should be given some time to show further improvement along the three interlinked dimensions. Should these positive developments show sign of slowing down, or even worse, seem to be reversed, there will definitely be a strong need for further developments.

The measures suggested by Statkraft above, will have a strong supportive effect on meeting the defined objectives as they will ensure improved trust in the market, by both financial players and new, smaller and independent generators.

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

Statkraft firmly believes the three objectives are strongly interlinked, but that objective one is dependent on objective two and three to really make progress. Statkraft therefore disagrees with objectives one and two being more critical to address, compared to objective three, as none of them are critical to address in the sense that market interventions are needed at this point in time as long as we continue to experience an improved liquidity in the short term market, including the within-day market.

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

As the UK seems to experience one of the fastest growing volumes on the Day Ahead Auction (N2EX) which Europe has experienced, it might be questionable if MAs are needed at this point in time. If the market follows the logic presented by Statkraft in our answer to Question 1 and that objective two and one will follow the positive developments of objective three, there is no need for MAs to ensure longer term liquidity as this will evolve out of the current improvements being observed in the near-time market.

However, should the development/behaviour expected by Statkraft and described above, not materialise, there is definitely a need to consider the appropriate mechanisms to ensure enhanced liquidity.

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

No comment.

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

Statkraft is of the opinion that in general such means should be implemented carefully to not disturb the market mechanisms more than necessary. Statkraft would therefore, in case it can be confirmed that;

- i) There is an existing need for active market interventions AND
- ii) The best solution to this is the MA

suggest that the required amount to be as low as possible, but of course still having a proven positive impact on liquidity.

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?

No comment.

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

No comment.

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

No comment.

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

No comment.

Yours sincerely


Bjørn Drangsholt
Managing Director, Statkraft UK Ltd