



Camilla Egginton

Ofgem

Sent via email

4 April 2012

Dear Camilla,

On behalf of Wärtsilä Corporation, we welcome the opportunity to provide a response to the February 2012 consultation document on GB wholesale market liquidity. This document represents an important milestone in the liquidity debate. While we note that the proposed approach (to promote physical forward liquidity and physical hedging products) appears to differ from the approach taken in many other markets (which tends to focus on promoting physical near-term liquidity so as to create a reliable reference price against which financial hedging products can be traded), we welcome the focus on lowering barriers to entry to the GB wholesale market.

As a provider of innovative power generation technologies on a global basis, Wärtsilä Corporation has a strong interest in the demand for and provision of efficient and flexible generation capacity across all customer types and across all timescales. We have been and continue to be actively engaged in the recent debate on GB wholesale market reform. We submitted a detailed response to DECC's December 2010 EMR consultation and to its EMR Capacity Mechanism consultation in October 2011, and in January 2012 we submitted a detailed response to Ofgem's Electricity Cash-Out Issues Paper. To recap our key messages:

- There is a significant need for new flexible capacity investment in the UK in the period to 2020, given the expected decommissioning of thermal plant and the increasing penetration of intermittent generation.
- An over-reliance on CCGTs (or any single technology) to provide the flexibility required may impose unnecessary system costs. The GB market arrangements need to promote the emergence of an efficient portfolio of flexible technologies that can meet the intermittency challenge at least cost to consumers (including supply-side, demand-side, and interconnection options).

- The current cash-out and reserve arrangements may not facilitate the emergence of an optimal mix of flexible technologies, in particular as:
 - a) They may under-value (or not transparently reveal the value of) different flexibility products in price signals; and
 - b) They are complex and unpredictable, which can act as a barrier to entry for flexibility providers, and can encourage 'internalisation' of cash-out risk within the Vertically Integrated Utilities (VIUs).
- While the proposed market-wide EMR capacity mechanism may increase the capacity margin in GB, it may not deliver the right mix of flexible capacity at least cost to consumers.

We believe that the emergence of an efficient flexibility mix will be best facilitated via transparent market-based solutions that encourage maximum participation and efficient price discovery. In this respect, while the recent increase in day-ahead volumes is indeed encouraging, we believe that more needs to be done to promote liquidity and efficient price signals in intra-day markets. As the consultation paper notes, the robustness of intra-day markets will become increasingly important as the proportion of intermittent generation on the system grows.

While we can understand the continued focus on day-ahead and forward market liquidity as part of this liquidity review, we welcome the decision to keep intra-day liquidity under review going forward. We also welcome the explicit recognition of the important links between the cash-out review and near-term liquidity. On this basis we intend to continue our close engagement with your colleagues working on the cash-out review.

We would welcome the opportunity to exchange views with your team and to further develop thinking in this critical area.

Yours sincerely,



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