

15 February 2013

Mr Phil Slarks  
Wholesale Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mr Slarks

Wholesale power market liquidity: consultation on a "Secure and Promote" licence obligation

Falck Renewables is an independent renewable energy generator. In the UK we currently own and operate 273MW of onshore wind capacity and have a further 80MW consented and in construction. We also own and operate other renewable energy plants across Europe with generation technologies including solar, biomass and waste to energy. In total Falck Renewables owns 716MW of installed renewable generation capacity

We are grateful for the opportunity to respond to your consultation on wholesale power market liquidity. As an independent generator we have not been directly involved in the wholesale power market as we tend to sell power from our wind farms through long term bilateral power purchase agreements (PPA). However, we have found that the market for PPAs in the UK has become progressively less competitive with fewer Suppliers interested in offering PPAs on competitive terms. This issue was highlighted in responses to DECC's "Call for evidence on barriers to securing long-term contracts for independent renewable generation investment" in August 2012. Ofgem's work on wholesale power market liquidity links closely to this issue of long-term PPA availability for independent generators as the outcome should be improved competition in the power market through increased liquidity and an improved platform for new entrants into the supply market.

We support the conclusions of the consultation and we agree with the implementation of a "Secure and Promote" licence condition which we hope will build on initial progress made to improve liquidity. We note that the proposals don't directly address the inherent structural problem in the market caused by the market being dominated by an oligopoly of a few large vertically integrated generators. This structure means that there is no inherent reason or incentive for the vertically integrated players to want to cooperate in increasing market liquidity and in assisting in helping with the growth of new suppliers. For this reason we would suggest that "Secure and Promote" is a good step forward but further action will almost certainly be needed to address inherent market imperfections. We would also comment that increasing liquidity in the power market should not be considered the only goal. It is important that this leads to new entrants into the market and that other barriers to entry for new entrants are monitored and addressed in parallel.

We offer the following responses to the specific questions set out in your consultation document:

**CHAPTER: One**

- **Question 1: Do you agree with our assessment of market developments?**
- **Question 2: Do you agree with our description of the policy and regulatory context affecting liquidity?**
- **Question 3: Are there other factors that we have not identified that may be posing a barrier to improvements in liquidity?**

Yes, we broadly agree with Ofgem's assessment of market developments in addition to the policy and regulatory context affecting liquidity. As we have indicated in our introductory comments we feel that the proposals don't directly address the inherent structural problem in the market caused by the market being dominated by an oligopoly of a few large vertically integrated generators. ....

**CHAPTER: Two**

- **Question 4: Do you agree that the Secure and Promote model presented in this document could help to meet our objectives?**
- **Question 5: Does our proposed structure for Secure and Promote seem appropriate?**
- **Question 6: Do you think the proposed Secure and Promote model would be a more effective intervention than the Mandatory Auction?**

Yes, we agree that the Secure and Promote model presented could help to meet objective and seems appropriate, but it also certainly requires further action to create long term sustainable liquidity and a climate for new entrants into the supply market to flourish. We prefer the proposal to seek to meet Ofgem's stated objectives through the Secure and Promote model rather than the Mandatory Auction approach.

**CHAPTER: Three**

- **Question 7: Do you have any views on the requirements we have set out for trading commitments – in particular those points listed under "outstanding design challenges" on page 25?**
- **Question 8: Do you have any views on our proposed approach to securing existing developments in relation to day-ahead auctions – in particular those points listed under "outstanding design challenges" on page 28?**

We don't have any comments on the details of the design of the trading arrangements.

**CHAPTER: Four**

- **Question 9: Will trading along the curve naturally develop from the near-term market?**
- **Question 10: Should Ofgem intervene to ensure that robust reference prices along the curve develop?**
- **Question 11: Is market-making the most appropriate intervention option to promote robust reference prices along the curve? What is your view on the trading obligation option that is outlined on page 34?**

## FALCK RENEWABLES WIND

- Question 12: Do you have any views on the design of the market making intervention outlined in this document – in particular those points listed under “outstanding design challenges” on page 33?

It is not clear that trading along the curve will naturally develop and Ofgem should be prepared to intervene in the market if progress is not made naturally.

### CHAPTER: Five

- Question 13: Do you have any views on the MA design issues discussed in this chapter?
- Question 14: Do you believe that a hub approach to pool liquidity across multiple MA platforms is a viable option?

Our preference is to follow the Secure and Promote route rather than a Mandatory Auction approach.

Yours sincerely



William J Heller

Chief Executive

Falck Renewables Wind Limited