Response to Ofgem's 2013 Liquidity Consultation - Trading Agreements under Secure and Promote by Dominic Whittome, Mainline Energy, an Independent Energy Consultancy.

A first point about Ofgem's decision to abandon, at least for the time being, its Mandatory Auction (MA) proposal. We believe MA to be the most efficient and only proven way (as witnessed elsewhere in Europe) to inject liquidity within seasonal and calendar-year sections of the forward market. MA could prove a robust mechanism to ameliorate the continuing lack of liquidity in the forward power market. What we now have is a 'de facto' liquidity crunch which ramps-up forward prices for consumers.

We note that some fifteen years after the UK liberalised its electricity market, the first EU country to do so and with a relatively diverse energy mix in terms of both import sources and input fuels, many UK industrials faces the highest power supply prices in the developed world bar Japan, which is arguably a special case anyway. It is imperative that a result is achieved by Ofgem this time so the forward power market become more competitive and UK manufacturers can buy both electricity and compete in exports markets on a level playing field.

In respect of the Liquidity Consultation and the comments made so far, we do not for one minute believe that improved near-term market forms [alone] will lead to liquidity improving "naturally" out along the curve. We see no logic or evidence to support this statement. Regulation is required now to encourage the *physical release* of long-dated electricity volumes and its trading out on the curve.

End-users and new entrants need a genuinely deep and liquid forward market. They should not accept any 'light touch intervention' by Ofgem that may confine liquidity improvements to the near-term market, albeit with generators and investment banks offering financial instruments alongside this in order to cater for those buyers still needing to buy forward. We therefore urge Ofgem to keep its MA proposal in reserve in the event that the alternative Self-Supplier Obligation proposal looks likely to fail or looks likely to be resisted or undermined by those agents wishing it to fail. It is crucial that a Self-Supplier Obligation is introduced in the most robust form possible and that it is given the best chance of success, given the failure of every single Ofgem liquidity initiative in the past.

A Self-Supplier Obligation must ensure that *adequate volumes* of sufficiently long-dated electricity are made available to industrial buyers and new entrants. Any new licence condition must be designed to accommodate this objective. For a Self-Supplier Obligation to be seen to be successful, market liquidity must be measurably improved, particularly in respect of *long-dated churn multiples*. We believe that improving liquidity will significantly reduce the inflated risk-premiums which UK industrials and householders are paying extra for today.

We point out that the generators currently have no financial incentive to correct this anomaly as the high risk-premiums that result are simply passed-on to industrial buyers, smaller businesses and householders. There is a perverse incentive which rewards generators for maintaining the status quo. The cycle of low liquidity leading to a lack of forward trading/market-exit which reduces liquidity further needs to be broken and we believe the only way this can happen is through some form of mandatory release programme.

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