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Phil Slarks
Wholesale Markets
Ofgem
9 Milbank
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15th February 2013

Dear Phil Slarks,

Re: RES Response to Wholesale power market liquidity: consultation on a "Secure and Promote" licence condition.

RES is one of the world's leading renewable energy developers working across the globe to develop, construct and operate projects that contribute to our goal of a sustainable future. We have a portfolio of low-carbon energy technologies and a range of services which together can meet demand from the industrial, public and commercial sectors on whatever scale.

RES has been an established presence at the forefront of the wind energy industry for over three decades. Our core activity is the development, design, construction, financing and operation of wind farm projects worldwide. RES have developed or built almost 7GW of wind energy worldwide and we have several thousand megawatts under construction and in development, we continue to play a leading role in what is now the world's fastest growing energy sector. RES is also involved in the dedicated biomass, solar, offshore wind, wave and tidal sectors.

RES welcome the opportunity to respond to Ofgem's consultation on wholesale power market liquidity and we hope you take our comments into consideration. The key points to note in our response are outlined below:

1. We would like to be clear, as we think Ofgem appreciates, that the needs for promoting a more liquid and transparent market is separate to the needs of providing a viable route to market for independent generator that require a Power Purchase Agreements (PPA). Liquidity is important for the large companies that have the facilities to trade in the market to respond to clear price signals and are able to manage their risks along the curve. As an independent generator we believe our issues with liquidity lie outside the scope of the Secure and Promote (S&P) proposal and still need to be considered and addressed. At present the vertically integrated nature of the market and lack of liquidity means we require PPAs with one of the large vertically integrated utilities (Big Six) in order to secure project finance for our developments. It is vital that the wholesale market is made highly liquid so that independent aggregators and traders can be attracted into the market to compete with the traditional PPA providers. However there are barriers to this, so it should not be assumed that improved liquidity will lead to independent aggregators being attracted into the market place.

2. The S&P licence condition proposed to support objective one should be expanded to include trade agreements between all market participants. We see potential for the Green Power Auction Market (GPAM) to enable independent generators to find a route to market and small suppliers to access power and support objective one and it needs to be considered by Ofgem.

3. Aggregators are not mentioned in the entire consultation document. RES believe monitoring and evaluating the number of aggregators active and the type of trading activity in the market is a key feature of a good quality wholesale power market and should be considered in more detail by Ofgem. We do not foresee new aggregators entering the market and offering viable PPAs to independent generators under the current market arrangements. There are currently insufficient numbers of aggregators in the market because of liquidity issues in the near-term and longer-term markets. A narrow focus on key liquidity indicators such as churn and spreads, whilst important, may miss the value of plurality and diversity that is an important indicator of the health of the market.

4. The proposed implementation of the S&P licence condition is likely to somewhat help the liquidity issues faced in the GB power market and should be introduced. Although more detail on the proposal needs to be presented. The package of measures approach is good approach as it is likely to take more than one measure to resolve all liquidity issues in the market.

5. The S&P licence condition at the moment has limited power; however it serves as a good basis on which to expand requirements. Out of the two options presented Option B should be followed, Option A will not result in sufficient liquidity along the curve. An additional mechanism is needed to create robust references price along the curve which are accessible to all market participants.

RES are grateful for the opportunity to comment and look forward to Ofgem's decision and further details on the intervention prior to Summer 2013. We hope you take our comments on board and welcome any further contact in relation to this response, please contact Sarah Husband at Sarah.Husband@res-ltd.com or on 01923 299 454.

Yours sincerely,

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Chapter 1: Context and market developments

Question 1: Do you agree with our assessment of market developments?

Overall there is a real lack of consideration for independent generators, the needs of independent generators are not being met by Ofgem's objectives, assessments and proposals in this consultation. We discuss this further in our responses to the specific consultation questions posed below.

Evidence presented in the consultation shows that churn has continued to fall in the first three quarters of 2012, maintaining the downward trend experienced since 2009. Furthermore, bid-offer spreads remain wide, are wider than in 2011 and are wide compared to gas. This evidence indicates that liquidity in the market is deteriorating. However, the conclusion drawn in the consultation document is that:

> "The early signs of progress in the market provide us with an opportunity to consider an approach that builds on the positive market developments we have seen to date".[1]

The evidence presented shows very limited, if any "early signs of progress" and we do not understand how the evidence presented corresponds to the conclusions drawn.

Near-term Market

We reviewed the trading behaviour available to us for a snap shot period last year. Our review suggested that trading behaviour is such that it increases the headline volume, whilst providing little practical benefit to encourage smaller players (and could suggest intra-company trading). It is also noticeable that:

i. **Clip Sizes:** Almost 80% of trades shown on N2EX have been of clip sizes of 50MW or more. The majority (70%) was recorded as trades of 50MW. This size of trade is not conducive to small participants and managing the balancing of smaller portfolios or portfolios which may contain a large proportion of wind.

ii. **Intra-day trading:** Intra-day trading is going to be extremely important for independent renewable generators to manage basis risk under FiTs CfD. We estimated that approximately 1% of total demand volume is traded in the intra-day market (N2EX and APX).

iii. **Timing of trades:** Almost 90% of trades occurred in the early morning before 9.00 with over 60% occurring before 8.00. This is a pattern that has been confirmed by N2EX who have informed us that the most liquid trading period is between 07.30 and 09.00. Furthermore there are clear patterns of trading when a series of trades will occur during a very condensed time period. On one example day, 148 trades took place between 7:30 and 8.00, 98 trades were then registered as occurring in the rest of the day. This suggests that trading patterns are limited, potentially computer driven and that the headline traded volume figures may create a misleading impression of actual behaviour.

For us this demonstrates a concerning pattern of trading behaviour that is far removed from the deep and liquid market that we need to see progression towards although it may represent progress towards the targets that Ofgem are evaluating.

Financial Trading

The consultation states that:

> "Trading in financial products has increased – but volumes remain low and volatile".

Financial players are not present in the market for a variety of reasons, including regulatory uncertainty e.g. Carbon Price Floor but predominately because the market is too concentrated and therefore poses too great a risk to financial participants. Unlike Nordpool which has a much more

[1] Point 1.36, Wholesale power market liquidity: consultation on a "Secure and Promote" licence condition, Ofgem, December 2012, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Secure and Promote Consultation.pdf&refer=Markets/RetMkts/rmr

fragmented market structure. The supply side of the Nordpool market in particular is much more fragmented than the GB market with many suppliers being local municipalities. Due to this fragmentation the demand for trading and balancing services is much greater. Nordpool is a much deeper and more liquid market, it is a financial market up until the day ahead when it becomes a physical market. This encourages a very liquid day ahead auction market, where approximately 70% of the demand is auctioned creating a deep and liquid pool. A wind generator in the Nordpool market has certainty that it will be able to sell its power with the ability to fix or hedge its position and mitigate its risk against price volatility and imbalances over a fixed tenure.

This compares directly to the bilateral market in the UK where physical contracts are signed earlier and as a result may not re-enter the market and a very small proportion of demand (currently around 10-15%) is traded in the day-ahead auction. There will only be real and enduring liquidity in the longer term market when there are a significant number of participants on both the buy and sell side of the market which truly need to trade.

Furthermore, the monitoring of the market which Ofgem currently undertakes should be continued if the S&P licence condition or any other intervention is implemented.

Question 2: Do you agree with our description of the policy and regulatory context affecting liquidity?

RES are in agreement with the descriptions presented but it is unclear how the liquidity work stream will align with the other market changes presented. Regarding the Electricity Balancing Significant Code Review (SCR) the consultation simply states that Ofgem will "consider the interactions between the liquidity project and the SCR proposals as they develop". This is insufficient detail, as a number of detailed proposals have already been outlined by Ofgem on the Electricity Balancing SCR[2].

Consideration one put forward by Ofgem is to introduce a more marginal main cash-out price and consideration six proposes to improve the allocation of reserve costs. These proposals are being taken forward therefore liquidity in the near-term market will become far more important to minimise the risks of punitive balancing costs on generators with a smaller portfolio of assets and intermittent generators.

Furthermore, consideration three contemplates allowing single trading accounts. Under single trading accounts liquidity in the near-term market will be impacted as there will be a reduced need for the parties to trade as imbalances will be netted. This could lead to reduced liquidity in the longer term market and further discourage aggregators from entering the market. However, whether the majority of trading actually occurs within parties own accounts already resulting in little difference under single trading accounts will need to be investigated as part of the Electricity Balancing SCR.

Another proposal put forward which has since been ruled out of scope for the current SCR, which would have impacted the near-term market is consideration eight, improvements for the treatment of intermittent generation. Treatment of intermittent generation will be more important going forward as more intermittent generation comes onto the system. We specifically supported option three within consideration eight, the SO taking responsibility for variations in generation after gate closure. This option would not only benefit intermittent renewable energy generators but also benefit the whole system as it would facilitate more effective system balancing by the System Operator (SO). The interaction of the liquidity proposals with the Electricity Balancing SCR needs to be considered in more detail.

[2] Ofgem, Electricity Balancing Significant Code Review Initial Consultation, August 2012, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Electricity Balancing SCR initial consultation.pdf&refer=Markets/WhlMkts/CompandEff/electricity-balancing-scr

As discussed in point 1.31 of the consultation document "a core feature of the EU Target Model is market coupling at the day-ahead stage". Market coupling under the EU Target Model offers potential for liquidity improvements but it needs to be looked into in more detail and will take time for it to develop. The proposed "GB Hub" may improve access to at least near term products. Although, RES would like to stress it would not be appropriate for Ofgem to wait for this to be introduced, as is not due to be completed until 2016. It should not be assumed that the introduction of the EU Target Model will miraculously introduce sufficient liquidity into the market given that many of the Big Six are also large organisations on the continent.

Please see additional comments in response to question fourteen below concerning the EU Target Model.

Question 3: Are there other factors that we have not identified that may be posing a barrier to improvements in liquidity?

1. **Lack of Aggregators / Supply Side Consolidation**

At present and even because of the liquidity review itself the power market is just too uncertain and complex to encourage aggregators to participate. As discussed in response to question one above, there is a stark contrast between the UK market and Nordpool. Nordpool has many more supply side entities actively involved in the market allowing greater scope for aggregators to play a role in the market, offering risk management services and managing that risk in a fully diversified portfolio that includes generation and demand. The Nordpool market also contains a number of specialist aggregators. RES believe monitoring and evaluating the number of aggregators active and the type of trading activity in the market is a key feature of a good quality wholesale power market and should be considered in more detail by Ofgem.

Aggregators are not mentioned in the entire consultation document. In contrast to the draft Energy Bill in which Government states that:

> "Improved liquidity will also lower barriers to entry, and support the entry of aggregators"[3].

Improved liquidity will encourage the entry of aggregators who in turn will further improve churn, bid-offer spreads and diversity of available products. We do not foresee new aggregators entering the market and offering viable PPAs to independent generators under the current market arrangements. There are currently insufficient numbers of aggregators in the market because of liquidity issues in the near-term and longer-term markets.

Furthermore, with the EMR putting the majority of new generation into the day ahead market, the potential for risk management services is largely removed (as market participants will want to achieve the day-ahead market reference price) and there is limited potential for forward trading and risk management services that may (if other issues such as liquidity were resolved) attract aggregators.

Chapter 2: The Secure and Promote Licence Condition

Question 4: Do you agree that the Secure and Promote model presented in this document could help to meet our objectives?

2. **Independent Generators**

Overall there is a real lack of consideration for independent generators, the needs of independent generators are not being met by Ofgem's objectives, assessments and proposals in this

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[3] Point 322, Annex A, Feed-in Tariff with Contracts for Difference: Operational Framework, DECC, November 2012, http://www.decc.gov.uk/assets/decc/11/policy-legislation/Energy%20Bill%202012/7077-electricity-market-reform-annex-a.pdf

consultation. The proposals should fully consider the needs all market participants. It is stated in section 2.7 in the consultation that "the purpose of the intervention would be to remove barriers to more effective competition in the generation and supply – particularly domestic supply – markets"[4]. Even the previous liquidity consultation had more, yet still limited, consideration of generation, section 1.6 stated: "it is also important for consumers that the wholesale market supports sufficient investment in generation, since this is important for security of supply".[5] All market participants need to be considered, the whole market overlaps and the whole market needs to function on all sides. The scope of the liquidity review needs to be broadened. There is greater risk of unintended consequences if the market is not considered in its entirety for example, obligating the Big Six to trade with small suppliers will limit trading with other market participants such as aggregators.

As an independent generator we believe our issues with liquidity lie outside the scope of this proposal and still need to be considered and addressed. At present the vertically integrated nature of the market and lack of liquidity mean we require Power Purchase Agreements (PPAs) with one of the Big Six suppliers in order to secure project finance for our developments. It is vital that the wholesale market is made highly liquid so that independent aggregators and traders can be attracted into the market to compete with the traditional PPA providers. However, there are barriers to this, so it should not be assumed that improved liquidity will lead to independent aggregators being attracted into the market place. Also the needs for promoting a more liquid and transparent market is separate to the needs of providing a viable route to market for independent generator that require a PPA. Liquidity is important for the large companies that have the facilities to trade in the market.

PPA terms typically included discounts on the wholesale electricity price and ROC value. The removal of the obligation on suppliers to procure renewable electricity under the EMR proposals is reducing suppliers' interest in offering PPAs to renewable generators. We are seeing that without new entrants and aggregators coming into the market PPA terms are deteriorating and greater discounts are being applied. It is therefore vital that the wholesale market is made highly liquid so that the new entrants and aggregators are attracted into the market and to avoid a further deterioration in PPAs terms.

The proposed S&P licence condition to support objective one is:

"The licensee must offer fair and reasonable terms when negotiating trading agreements".

In order for the proposed S&P licence condition to be successful and meet the objectives it must apply to trade agreements between the Big Six and all market participants such as aggregators and generators that do not have a supply side portfolio, not only independent suppliers. The S&P licence condition should support all market participants as discussed above just resolving the liquidity issues for small suppliers will not solve the liquidity problem.

Additionally, we fully support the Green Power Auction Market (GPAM) proposal to enable independent generators to find a route to market. The GPAM proposal builds upon the existing NFPA structure, provides a market-led solution, improves liquidity, allows market access for small suppliers and new entrants but most importantly will lower cost to consumers. Under GPAM a low-carbon generator will auction their output every six months to a supplier, in line with the current NFPA power auctions. The supplier will purchase all the output from that generator and manage

[4] Wholesale power market liquidity: consultation on a "Secure and Promote" licence condition, Ofgem, December 2012, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Secure and Promote Consultation.pdf&refer=Markets/RetMkts/rmr

[5] Wholesale power market liquidity: consultation on a "Secure and Promote" licence condition, Ofgem, December 2012, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Secure and Promote Consultation.pdf&refer=Markets/RetMkts/rmr

all the balancing. The cost of balancing will be factored into the auction price and therefore adjusted every six months to take into account actual balancing costs, removing the risk of over estimating long term balancing costs in PPA's and CfD Strike prices. Under this proposal the auction clearing price will be used for each generator as their CfD reference price thereby removing CfD reference price risk. GPAM will promote competition and lower the cost of reaching renewable energy targets for consumers. Furthermore, the NFPA power auction is a good route for small suppliers to access power.

The S&P Licence Condition should make more use of existing arrangements, the NFPA platform works well for small suppliers and this should be expanded upon. The NFPA power auctions offer payment on delivery contracts and 50% of all purchases on the NFPA power auctions go to small suppliers.

Secure and Promote

The proposed implementation of the S&P licence condition is a relatively weak proposal given the length of time it has taken to reach it. For us to make a firm conclusion on the full benefit of this proposal more detail is needed. It is likely to somewhat help the liquidity issues faced in the GB power market and should be introduced. The package of measures approach is good approach as it is likely to take more than one measure to resolve all liquidity issues in the market. At a minimum it will ensure the current actions to improve near-term liquidity are maintained and provide some certainty to the market. However, unless Option B is taken forward it is unlikely to bring about the significant improvement which is needed at this point. Furthermore, the requirement for trading 30% of the Big 6's generation in the day-ahead market may not be the best practice to embed but only the most acceptable practice.

A real intervention is needed to drive trade and "drive further improvements". For the S&P licence condition to really "drive further improvements" as suggested in section 2.2 of the consultation additional licence condition changes will be needed which will take time to be implemented and will need to be fully consulted upon. It needs to be adaptable, particularly considering the other market changes currently being undertaken e.g. EMR, BSC SCR, EU Target Model etc. We support the comments made in section 2.10 that Ofgem will hold "regular discussions with stakeholders to gather views on the market and to consider the case for revisions to the Requirements Document"[6]. The additional guidance document could perhaps be amended more swiftly than licence conditions but a robust change control process should be followed to ensure all stakeholders are consulted and implications appropriately considered before any changes are made.

Furthermore, as we outlined in response to question one above and as also highlighted in the consultation we "remain sceptical about the growth of day-ahead auction platforms and the extent to which these volumes are actually available to a range of market participants – or whether they are bought and sold by the same players without meaningfully adding to liquidity"[7]. Therefore, we also concerned by the suggestion in the design principles that there will be a benefit to FiTs CfD references prices from the promotion of day-ahead trading under the S&P Licence Condition. We have concerns around the validity of this liquidity, whether it is real liquidity and indicating actual progress or just creating the right headline figures. If it is not genuine liquidity it will not help independent market participants nor encourage aggregators into the market. It is the net trading

[6] Wholesale power market liquidity: consultation on a "Secure and Promote" licence condition, Ofgem, December 2012, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Secure and Promote Consultation.pdf&refer=Markets/RetMkts/rmr

[7] 1.21, Wholesale power market liquidity: consultation on a "Secure and Promote" licence condition, Ofgem, December 2012, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Secure and Promote Consultation.pdf&refer=Markets/RetMkts/rmr

which is key figure, the net volumes and prices should be looked at in more detail by Ofgem. The increased day-ahead trading may not actually support CfD reference prices but enable a limited number of players to control CfD reference prices. Increased trading volumes from a few large vertically integrated players will in all likelihood lead to additional volatility in the day-ahead market.

Question 5: Does our proposed structure for Secure and Promote seem appropriate?

As discussed in response to question four above, the S&P licence condition at the moment has limited power; however it serves as a good basis on which to expand requirements. Out of the two options presented Option B should be followed, Option A will not result in sufficient liquidity along the curve. As discussed in response to question six below the ability to expand on the liquidity intervention should be maintained. Furthermore, proposals should continue to be developed while there is the necessary momentum.

It is correct to only apply the S&P licence condition to large vertically integrated utilities, the Big Six. It should not be applied to participants only active on one side of the market and should not be applied to small suppliers as it would restrict their growth, further inhibiting competition and posing a barrier to entry.

Question 6: Do you think the proposed Secure and Promote model would be a more effective intervention than the Mandatory Auction?

As discussed in response to question four above, the proposed implementation of the S&P licence condition is a relatively weak proposal given the length of time it has taken to reach it. It is likely to somewhat help the liquidity issues faced in the GB power market and should be introduced. However, unless Option B is also taken forward it is unlikely to bring about the significant improvement which is needed at this point. The S&P licence condition can be implemented quickly and therefore should be, especially given the long delays in the liquidity review which has already occurred.

The Mandatory Auction would be a more radical proposal and likely to introduce more liquidity improvements such as access to a wide variety of products and smaller clip sizes. However, there are key features of implementing this significant market mechanism which need to be investigated further as outlined in the responses to the previous liquidity consultation. There are also other solutions such as a self supply restriction which should not be ruled out. A self supply restriction as part of a package of measures would bring much needed transparency of the market. Although a self supply restriction would not resolve all market issues as part of a package of measures it would bring many benefits. Furthermore, the Mandatory Auction and the S&P proposals as they are currently presented will not meet the needs of all market participants, notably independent generators.

<u>Chapter 3: Securing Existing Developments</u>

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?

The S&P licence condition states that "the licensee must offer fair and reasonable terms when negotiating trading agreements". In order to monitor and enforce this condition, Ofgem will need to be firm and consistent on what it considers to be unfair and unreasonable. Ofgem will need to be strong and critical of the terms which will be difficult and require deep analysis of the companies involved for example in areas such as credit terms. Also, these will in all likelihood be bilateral trades and therefore will not help create robust reference prices along the curve.

We have outlined our comments on the "outstanding design challenges" listed on page 25 of the consultation document below:

Credit and Collateral – requirements should be innovative, flexible and adaptable, for example ROCs or the small suppliers' customer base could be used as an asset in assessing collateral requirements.

Scope – as discussed in our response to question four above, there is a real lack of consideration for independent generators. It is suggested in the consultation that independent suppliers "face particular problems (for example in relation to clip sizes) that other parties in the market do not", as discussed above independent generators face significant and deteriorating terms when seeking a route to market. The condition should be expanded so the Big Six have to trade with all market participants notably aggregators and generators that do not have a supply side portfolio with fair and reasonable terms.

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 have outlined our comments on the "outstanding design challenges" listed on page 28 of the consultation document below:

Impact – as we outlined in response to question one and four above and as also highlighted in the consultation we "remain sceptical about the growth of day-ahead auction platforms and the extent to which these volumes are actually available to a range of market participants – or whether they are bought and sold by the same players without meaningfully adding to liquidity"[8].

Platform – there is also a need to ensure that the day-ahead platform used is accessible to all market participants. The requirement needs to be clear that all suppliers should not sell their entire obligation through a single auction platform, either N2EX or APX. As the cost and credit requirements to independent market participants to participate in both auctions may be insurmountable and therefore may only participant in one auction platform. Therefore if all the day-ahead market power is going through one auction it will not be accessible to all market participants. It is also inappropriate for Ofgem to pick a winning platform.

Chapter 4: Promoting Further Developments

Question 9: Will trading along the curve naturally develop from the near-term market?

Please see comments in response to questions one and four above, under the current near-term traded market, it is very unlikely that trading along the curve will naturally develop. Conversely increased trading in the near-term market may in fact remove trading from further along the curve. Current trading behaviour in the near-term market is such that it increases the headline volume, whilst providing little practical benefit to encourage smaller players. Furthermore, trading volume does not necessarily provide robust prices and will not facilitate trading further along the curve. Due to the small number of participants controlling near-term prices it is unlikely to encourage trading further along the curve in the confidence you will be able to viably trade in the near-term market.

[8] 1.21, Wholesale power market liquidity: consultation on a "Secure and Promote" licence condition, Ofgem, December 2012, http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=Secure and Promote Consultation.pdf&refer=Markets/RetMkts/rmr

Ofgem's conclusion regarding the near-term market objective presented in this consultation is that it is "effective" and denoted with a green indication of progress. Therefore, if the near term market is currently effective, under this theory trading along the curve should already be developing. Ofgem's assessments of market developments in fact show that churn is continuing to fall and bid offer spreads remain wide.

As discussed in response to question three, these proposals do not even consider and therefore are unlikely to encourage aggregators to enter the market which would promote longer term liquidity. Aggregators along with financial players could develop additional trading along the curve.

Question 10: Should Ofgem intervene to ensure that robust reference prices along the curve develop?

As discussed in response to question five above, out of the two options presented Option B should be followed, Option A will not result in sufficient liquidity along the curve. An additional mechanism is needed to create robust references price along the curve which are accessible to all market participants. Even if Option B is not taken forward at this stage a solution needs to be looked into, which can then be implemented swiftly when it is needed. The threat of intervention should be maintained by Ofgem.

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?

The obligation would promote references prices along the curve, although the proposal needs to be worked through in more detail. Insufficient detail is presented here to truly comment, Ofgem need to fully investigate and analyse the impact. The market making proposal as it is currently presented looks difficult to implement and for Ofgem to monitor and enforce compliance.

The market making proposal will enable continuous trading which is preferable to the monthly Mandatory Auction proposal and market making has been implemented successfully in the Nordpool market. However, we do not believe that the large vertically integrated utilities are the best entities to effectively make the market. Therefore we would support a third party undertaking the market making role through an obligation on the Big Six.

It is important that market making does not bring distortion into the market. Regarding point 4.15 presented in the consultation:

> "Our chief concern with this model is that a requirement to trade a particular volume could create distressed buyers or sellers as licensees try to meet their obligation".

If the obligation is structured in an appropriate way this is unlikely to be the case. For example if the obligated parties have a year in which to meet this requirement they will have sufficient time to manage this risk, unless they chose to do otherwise. Strong penalties for bringing distortion into the market needs to be put in place and robustly enforced by Ofgem.

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?

All the issues raised on page 33 are real issues and the market making intervention needs to be looked into in more detail. In particular the impact of MiFID needs to be thoroughly explored by Ofgem as it may not restrict the implementation of market making if structured appropriately. Furthermore, the cost of market making is unlikely to be significant.

Chapter 5: Update on the Mandatory Auction

Question 13: Do you have any views on the MA design issues discussed in this chapter?

The continual development of the Mandatory Auction proposal is needed to ensure that if or when the S&P licence condition does not result in sufficient liquidity it can be implemented quickly. This is necessary as assessment and implementation of an intervention mechanism is time consuming. It is preferable to be ready with additional solution that is not implemented than to halt progress now and recommence at a later date. Even if none of the proposed mechanisms are ever implemented, the threat of implementation should be maintained to continue the market led developments that are currently being seen. Alternatively, the Mandatory Auction could be implemented under Option B instead of market making or an obligation to trade.

Question 14: Do you believe that a hub approach to pool liquidity across multiple MA platforms is a viable option?

The hub approach to pool liquidity across multiple MA platforms is an interesting idea and should be looked at in more detail. As discussed in response to question two above, it is important that Ofgem's liquidity work stream aligns with other market changes currently in progress. Therefore linking the introduction of the EU Target Model and the mechanism chosen to enhance liquidity is a beneficial initiative. Pooling liquidity across multiple MA platforms would remove one of the largest drawbacks to the MA mechanism, which is that a single trading platform would concentrate liquidity. However, the advantages for liquidity will be limited, the "GB Hub" will improve visibility and transparency but the markets will remain separated. RES would like to stress again that it would not be appropriate for Ofgem to wait for the "GB Hub" to be introduced, as it is not due to be completed until 2016.