

Phil Slarks
Wholesale Markets
Ofgem
9 Millbank
London SW1P 3GE

9 August 2013

Dear Mr Slarks

Horizon Nuclear Power Limited response to “Wholesale power market liquidity: final proposals for a ‘Secure and Promote’ licence condition” consultation (reference 88/13)

I am writing in response to the Ofgem consultation of 12 June 2013 as titled above.

Though not currently an electricity generator, Horizon Nuclear Power Ltd holds a generation licence through its subsidiary company¹ and is intending to participate in the electricity market through its planned nuclear reactors at Wylfa and Oldbury-on-Severn. As such, we are responding to your consultation and are copying this letter to officials at DECC (Chris Hemsley, CFD team) insofar as it is relevant to the continued development of the Contracts for Difference (CFD) policy.

As Horizon is not currently active in the electricity market we have limited input to provide to the structured questions that you asked in the consultation document. There were, however, some general points that we wanted to make which we hope are of use. For reference we have indicated in the text below where we think particular points fall under questions asked in the consultation.

Horizon has previously expressed its desire to see a liquid and deep forward electricity market to assist in the selection of a suitable “market reflective” baseload reference price (BRP) for the CFD. Developers of, investors in and lenders to baseload plant must have high confidence that, with a suitable trading strategy in place, they will for the duration of their CFD be able reliably to trade their output to willing buyers and achieve the reference price. Providing developers, investors and lenders with that confidence will require clarity and predictability in the calculation of the BRP.

We expect that it’s unlikely there would be a guarantee that the mandatory market making requirement will continue for the life of a CFD. Therefore, although the proposed measures may contribute to achieving acceptable market conditions when in force, they cannot remove the need for principle-based tests, backup arrangements and protection from change to provide the reference price confidence that investors will require.

¹ Horizon Nuclear Power Wylfa Ltd

Question 4

For the avoidance of doubt, it would be useful for Ofgem to clarify whether they expect plant generating under a CFD to be subject to the Market Making Obligation or Supplier Market Access proposals, or whether they would be explicitly excluded. It is worth highlighting that in the case of a standalone nuclear generator with CFDs, trading activities are likely to be very focused on mechanically replicating the trading patterns necessary to achieve the reference price under the chosen BRP methodology. A requirement to trade peak products or time products other than those underpinning the reference price would represent a material imposition in terms of the capability to trade and the associated risk processes.

It is also worth noting that although Wylfa operations will not start for a number of years, in advance of securing finance a project must demonstrate the ability to undertake all required operational activities and manage the spectrum of risks affecting the project: any potential trading requirements will therefore have to be discussed and understood in funding discussions prior to the start of construction. From that perspective, an explicit exclusion of plant with CFDs from the "Secure and Promote" requirements would be welcome.

Regardless of immediate decisions and issues, it is inevitable and reasonable that generators would seek protection through the CFD from changes to the market, including regulatory obligations, which may apply to them after the CFD was in force.

Question 7

If Ofgem places a requirement on large, vertically integrated suppliers to offer a continuous market making service in products relevant to reference prices, with a defined maximum bid offer spread, this could beneficially increase the ability of generators – particularly independent generators – to capture a properly structured reference price as it would ensure there are offers available in the market.

This effect is weakened by the limit on the extent to which obligated suppliers have to offer prices (proposed in paragraph 4.14 as 50% of any calendar month). We are concerned that the times when the offers would be withdrawn by suppliers may be highly correlated with fast changing market conditions, which is precisely the time when robust reference price calculation and capture may be most difficult.

Yours sincerely

John Moriarty

Head of Revenue and Nuclear Liabilities, Horizon Nuclear Power

Cc Chris Hemsley, DECC CFD team