

Phil Slarks
Senior Economist
Ofgem
9 Millbank

London
SW1P 3GE

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Ian Pashley
Markets & Balancing
Development Manager

Ian.Pashley@nationalgrid.com
Direct tel. +44 (0)1926 65 3446

www.nationalgrid.com

Dear Phil

Wholesale power market liquidity: final proposals for a 'Secure and Promote' licence condition

Thank you for the opportunity to provide our view on your Final Proposals for a 'Secure and Promote' licence condition. This response is provided on behalf of National Grid Electricity Transmission plc (NGET) and is not confidential. NGET owns and operates the high voltage electricity transmission system in England and Wales and, as National Electricity Transmission System Operator (NETSO), also operates the Scottish and offshore high voltage transmission systems.

In the UK, our primary duties under the Electricity Act are to develop and maintain an efficient network and to facilitate competition in the generation and supply of electricity. In order to fulfill the first of these duties we engage in some prompt trading patterns as a means of ensuring efficient balancing of electricity supply and demand and managing system security. Our ability to execute the necessary trades at economic prices is directly related to the liquidity of the market (i.e. improvements in liquidity improve the efficiency of the trading we carry out to support our residual balancing role). In addition, our duty to facilitate competition in the generation and supply of electricity complements those of Ofgem in relation to increasing the overall liquidity of the electricity market.

The previous consultation was rightly focused on arriving at the most appropriate policy decision (i.e. whether the 'Secure and Promote' licence condition should be adopted rather than the other options considered such as a 'Mandatory Auction'). This type of policy decision has the potential to significantly impact the market and thus NGET's operations and we therefore support the high level decisions that underpin these Final Proposals. However, as this consultation is asking for views on the finer detail of the licence condition itself, we will leave more detailed responses to those parties directly impacted.

In summary, we agree with Ofgem's assessment that, whilst some improvements in liquidity have been evident since the issue was first raised, progress has not been sufficient to mean that intervention in the market is no longer required. Of the options available to improve liquidity, we agree with Ofgem's decision to adopt a 'Secure and Promote' licence condition rather than something more radical such as Mandatory Auctions or a Self-Supply Restriction. This is because we generally prefer to allow market forces to operate wherever possible and

also due to the fact that there are several other areas of market reform which could potentially improve liquidity (especially in the near-term market), such as the move towards market coupling under the EU Target Model.

We are pleased to note that some of the suggestions we made in our response to the previous consultation have been addressed in these final proposals. For instance, we said that we would welcome proposals being extended beyond the “Big 6” as they only represent 70% of the generation market (compared to 99% of the supply market). This appears to have been considered as the next two largest generators have been included for the “Supplier Market Access Rules” section and the “Reporting Requirements” section. We are also pleased that the positive impact that the NWE Market Coupling should have on GB liquidity has been included in this consultation.

If you have any questions regarding this response, please contact Alex Haffner on 01926 655838 or on alex.haffner@nationalgrid.com.

Yours sincerely,

Ian Pashley
Markets & Balancing Development Manager
National Grid