



Ofgem  
Attention: Graham Knowles  
9 Millbank  
London  
United Kingdom

**18 December 2013**

Dear Graham

APX response to Ofgem statutory consultation on the Secure and Promote licence condition

APX welcomes the opportunity to respond to Ofgem's statutory consultation on its proposed Secure and Promote licence condition.

APX operate day-ahead auction and intraday continuous markets in the Netherlands, Belgium and the United Kingdom. APX have been at the forefront of power market innovation since we launched the first European power exchange in 1999. We are currently working on initiatives with our members to improve GB market liquidity and to integrate GB with neighbouring markets.

APX has 66 UK members, significantly more than any other GB power exchange, and approximately 95 per cent of GB intraday trading is facilitated by APX. We recently launched the APX UK Market Development Advisory Board (MDAB) which is a formal member led body of the APX group to seek feedback from our members on appropriate market and product development in the UK.

APX has been successful at attracting a number of independent generators and suppliers to our market. It is APX's view that market access is a more important indicator of competitiveness than volumes traded. We believe that it is misleading to represent volumes traded, however significant, as demonstrating a competitive market, if those volumes are not widely accessible. APX will continue to work hard to ensure we provide an attractive market and services for all our members.

We believe that independent suppliers and generators have a preference for APX because our credit terms are more attractive, our trading terms are non-discriminatory, and our UK markets, particularly intraday, provide the flexibility and depth that independent companies need. APX's direct clearing model removes the need for parties to enter into a relationship with a clearing bank, which can act as a significant barrier to entry to smaller players. We hope that Ofgem recognises APX's efforts to encourage and facilitate new market entry.

We will continue to proactively engage with our members, Ofgem and DECC, building on our expertise, to ensure that near term markets remain effective, efficient and contestable. This is a particular concern given the considerable challenge faced by the industry to efficiently integrate low carbon generation and implement the anticipated European network codes and financial legislation.

Participants in the wholesale market face considerable policy uncertainty, which may impact price expectations, and discourage them from contracting ahead. Liquidity may improve when the current regulatory uncertainty is addressed. We note that historical periods of increased liquidity also coincide with periods of regulatory stability.

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## The APX intraday market

We appreciate that Ofgem has recognised our efforts to develop an efficient, transparent and accessible intraday market. The APX intraday market accounts for over 95 per cent of exchange based intraday trading in GB.

We agree with Ofgem that intraday liquidity is not currently a widely held concern. However, we believe that Ofgem should consider intraday markets in any assessment of near term liquidity. It is widely recognised that the development of efficient and integrated intraday markets will be particularly important as GB seeks to efficiently integrate significant volumes of less predictable and intermittent generation.

Related to this, the Market Index Price published by Elexon is a robust price benchmark based on a methodology developed by industry and approved by Ofgem – and is subject to an independent audit. Many contracts in GB are traded against the Market Index Price as this represents the point at which the market has the most information about supply and demand fundamentals. Moreover, the Market Index Price is used by Elexon to calculate imbalance charges.

We will continue to work pro-actively with our members, and policy makers, to ensure that the APX intraday market evolves to meet the new challenges posed by renewable integration and market integration. To this end, we welcome, and will continue to support the work of Ofgem's Future Trading Arrangements Forum.

## APX day-ahead market

Much has been said about the need for a robust day-ahead reference price in GB. We support the current political consensus that the GB market coupling arrangements, implemented under the agreed scope of the NWE project, will provide the basis for a robust GB day-ahead reference price. The successful implementation of NWE market coupling will improve market depth, increased price resilience, promote cross border competition and potentially lower market concentration.

To facilitate this process APX has been working with our project partners to establish a GB Framework Agreement to set the contractual basis for the GB market coupling arrangements. We believe that the link with market coupling should be made explicit in the proposed Secure and Promote licence conditions with the following amendment to schedule C: "gross volumes bought and sold through **market coupled** day-ahead auctions each month".

We anticipate that the intermittent EMR reference price published by DECC – which we understand will be based on the APX and N2Ex day-ahead auctions – will ultimately become the day-ahead reference price for GB.

The link with EMR means that it is critical that GB market coupling arrangements ensure a level playing field. At our UK MDAB on 24 October our members raised concerns about the nature of GB-GB decoupling processes proposed by one of our project partners. We recently wrote to DECC, as part of its EMR consultation, highlighting that the proposed GB-GB decoupling process will have a negative impact on the robustness of the GB day-ahead reference price and unnecessarily increase the cost to GB industry of implementing EMR.

Given the importance of a robust GB day-ahead reference price to the objectives of the liquidity project and DECC's EMR, we will continue to work with Ofgem to address the concerns raised by our members.



We also note the concern Ofgem raised in its December consultation that some specific industry arrangements may mean that significant volumes are bought and sold in the GB day-ahead auctions by the same players without meaningfully adding to liquidity. We would be grateful if Ofgem could explain these concerns so that we can work constructively with our members to address them. We would like to highlight that our trading terms are non-discriminatory.

We noted in our previous consultation response that day-ahead volumes matched should not be the only metric used by Ofgem to assess the liquidity of near term markets. For example, a successful reference price needs to be accessible to all market participants. We believe that the GB market coupling arrangements implemented as part of the NWE project will improve the accessibility of the reference price for market participants. However, we are developing additional products and services to further improve accessibility.

### **APX products and services**

APX is working to develop and implement new products and services that we believe will support the liquidity and competitiveness of near term markets in GB. Below we provide details of two types of products that APX has been developing and explain their benefits for near term liquidity in GB.

#### **Smart Orders**

To coincide with the expected launch of NWE market coupling, APX has developed and will introduce “smart orders” as a new product offering for our members. This will be the first time that smart orders are available to GB market participants in a market coupled day-ahead auction.

Smart orders enable our members to reflect more accurately the physical constraints of their generation portfolio or demand profile into their bids in the day-ahead auction. This is important as the day-ahead auction is a one shot process where members’ bids are accepted or rejected at a price determined by the auction algorithm. The introduction of smart orders facilitates participation of demand, storage and aggregators in the day-ahead auction.

The ability to use smart orders should improve liquidity as they help our members better manage the risk they face when participating in the GB day-ahead auction.

#### **Demand side participation**

More active participation of demand in the wholesale market is an important policy objective. APX has been working to develop a service to reduce the barriers to demand side participation in our intraday and day-ahead markets.

Our proposed demand side participation service enables customers to trade directly on our day-ahead and intraday markets, via their suppliers’ account. This service would also be an effective policy measure to reduce the cost to independent suppliers and generators to participate in GB wholesale markets. Ofgem should consider the proposed service as part of its proposed supplier market access rules.

The proposed service has lower implementation costs than many alternative proposals that are currently under consideration to promote demand side response, and would be effective at facilitating access for independent suppliers and generators to the wholesale market.

Such initiatives to reduce barriers to wholesale market access are important to promote a liquid and competitive market.



## Regulatory oversight

We agree with Ofgem's assessment that there is no need to intervene in near term markets. We would not welcome any licence condition that requires our members to post volumes on our, or any other, near term market. In general we believe that such mandatory measures are not effective at promoting liquidity.

Following the Financial Conduct Authority (FCA) November 2013 statement on the interpretation of the Markets in Financial Instruments Directive (MiFID), we have been working with our members and the FCA to clarify the impact on near to real time markets. As a result, APX is seeking to remove its FCA license to operate a Multilateral Trading facility and the services provided under APX's UK membership agreement will no longer be subject to FCA supervision.

We see increased pressure coming from anticipated policy developments which may warrant better oversight of near to real time markets. These include the choice of the GB day-ahead auction price as the reference price for EMR contracts for difference, day-ahead and intraday market coupling, NEMO designation and the implementation of European financial regulation.

As a result, we will continue to work closely with our members and Ofgem to ensure appropriate regulatory oversight of near to real time markets.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Olaf Isfei'.

Olaf Isfei  
Public and Regulatory Affairs

A handwritten signature in black ink, appearing to read 'A Claxton'.

Andrew Claxton  
Director of Business Development