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Graham Knowles
Wholesale Market Performance
Ofgem
9 Millbank,
London
SW1P 3GE

Dear Sir,

**Consultation response to “Wholesale power market liquidity: statutory consultation on the
“Secure and Promote” licence condition”**

Carlton Power Limited is a UK based independent power station developer and has managed projects in the UK and Europe since the company was founded in 1995. To date, we have been involved with the construction of over 1800MWs of installed electrical capacity and a further 2380MW of consented plants in the UK of which 860MW is currently under construction.

On 9 August 2013 we responded to the consultation on “Wholesale power market liquidity: final proposals for a “Secure and Promote” licence condition”. As we noted in that consultation response, we welcomed steps to promote genuine liquidity, competition and the creation of an effective wholesale market. We supported Ofgem’s original proposal to introduce mandatory auctions, and then supported, in turn, Ofgem’s market maker proposals provided these are designed to improve liquidity, transparency, and competition.

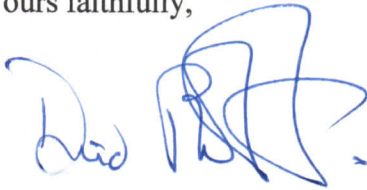
However, we are disappointed that the latest market maker proposals have been significantly “watered down” by the introduction of a backstop volume cap whereby any supplier can withdraw from a window in respect of a particular product after it has traded net volume in that product of 30MW. (Ofgem’s proposals have moved from requiring the large generators to sell 25% of the power they produce to only requiring the trading of a nominal amount.) The market so created may be sufficient to establish a reference price, but that market will be limited and will not achieve the more general and wider aim of a competitive and liquid market. The changes to widen the Bid/Offer spread and limit the trading windows can also be seen as concessions which limit any real impact of the reforms to just the establishment of a reference price.

Whilst the establishment of a reference price has been recognized by Ofgem as one of the potential indicators of a liquid competitive market, a constrained market which is designed only to establish a market price is not the same as, and should not be mistaken for, a genuinely competitive market. The existence of a limited number of vertically integrated utilities with both a large retail customer base and large generation portfolios is what lies at the heart of the absence of effective competition in the

UK energy market. The introduction of a limited market maker obligation, requiring these utilities to trade a very small fraction of the power they generate, will do little to address this issue.

The establishment of a reference price is one of the necessary means to the achievement of the desired end - a functioning liquid and competitive market. The current proposals concentrate unduly on that "means" without promoting the desired "end". The development of the Secure and Promote process has seen a steady "watering down" of the proposals and consequently also of their likely effectiveness. The Executive Summary to the current consultation begins "*our liquidity project aims to improve competition in the wholesale energy market by removing barriers which make it difficult to trade electricity.*" We believe this aim will not now be met with the current proposals which we can no longer support. This is a big missed opportunity to promote genuine market reform and in the circumstances for us to comment further on the detailed design of your proposals would not be constructive.

Yours faithfully,



David Philpot
Director and General Counsel