

18 December, 2013

Wholesale Power Market Liquidity – Statutory Consultation on the “Secure and Promote” Licence Condition

Dear Sir,

We agree that current levels of liquidity in the UK Power Market act as a barrier to entry and strongly to the detriment of smaller, non-vertically integrated market players. We note also that liquidity has declined significantly over the past ten to twelve years and feel that this may be due, at least in part, to the effects of NETA following its launch in 2001. This may have incentivised vertical integration, thus leading to a situation whereby vertically integrated players have a significantly weakened incentive to cover their hedging requirements through the wholesale market. The high profile bankruptcies of Enron and TXU UK in the early part of the last decade may also have contributed to an overall reluctance to trade.

We believe that the Secure and Promote proposals advanced by Ofgem will go some way towards addressing the issues that smaller players face in accessing the products that they require in order to properly hedge their market risk. However, we would have preferred to see steps taken whereby large vertically integrated suppliers were forced to sell all of their generated output into the traded market, i.e. a self-supply restriction. We feel this would have had a greater impact on liquidity than Ofgem’s proposals. However, we will closely monitor the effect of Secure and Promote on the wholesale market and are hopeful that some improvement on the current situation will result with regards to liquidity and smaller supplier wholesale market access.

Please do not hesitate to contact me should you have any questions or require any further information.

Yours faithfully,

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