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Dear Graham,

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Wholesale power market liquidity: statutory consultation on the 'Secure and Promote' licence condition

Our ref. jakfo

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DONG Energy welcomes the opportunity to respond to the above consultation and would like to present the following messages.

DONG Energy supports the 'Secure and Promote' licence condition as a necessary intervention to enhance liquidity and a more well-functioning wholesale market. Further, we agree to the approach and evaluation made in the Impact Assessment that better liquidity, transparency and competition will lead to significant benefits to consumers.

Monitoring of the market by Ofgem has for several years documented the liquidity problem and the lack of progress calls for implementation of the licence condition as soon as possible.

The market making obligation strikes a good balance between costs and benefits given that market making is a well-known and cost-efficient tool to facilitate liquidity.

Compared to the *Final proposal for a 'Secure and Promote' licence condition* presented in June 2013 we are, however, concerned that part of the design changes will dilute the effectiveness of the market maker obligation. The widening of the bid offer spread would most likely limit trading activity along the curve. Having a tight bid offer spread is the most important feature of the market making obligation in order to attract financial players, aggregators and new comers to the market. In this effort narrow spreads would be necessary for new market traders to be able to unwind positions and face manageable risks.

Regarding rules on '*availability*' for the Market Making Obligation having four measures to ease the obligation, including 1) a narrow trading window, 2)

reloading rules of 5 minutes resting time, 3) a volume cap, and 4) fast market rules, seems very lax and is considerably diluting the effectiveness of the market maker obligation with a risk of frustrating the aim of the policy proposals leading to no significant changes to the present market situation.

Making 'trading windows' and creating fast market rules should make the risks manageable for the obligated parties with their large trading departments. To assure the effectiveness and trust in the market making obligation there should be an instant reloading of new bids and offers and there should be no volume cap.

On the '*platform rule*' we would like to commend the changes made which will create flexibility to include platforms such as power exchanges that can better attract new players such as aggregators and financial traders.

DONG Energy would be happy to discuss any points raised above. In case of concrete questions please contact us on +45 99 55 91 66.

Yours sincerely,

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