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

Ecotricity Group Ltd
Unicorn House
Russell Street
Stroud
GL5 3AX

18th December 2013
Ecotricity Reference No.: 262
holly.tomlinson@ecotricity.co.uk
01453 769301

The Renewable Energy Company Ltd (Ecotricity) Response to Statutory Consultation on the 'Secure and Promote' Licence Condition

Introduction

Ecotricity is an independent renewable energy supplier and generator. We have around 82,000 domestic and non-domestic customer accounts; 61.5 MW generating capacity and the country's first solar park.

As small independent supplier, we welcome Ofgem's proposals to improve liquidity in the wholesale energy market through the introduction of a 'Secure and Promote' licence condition. We believe that this approach could go some way in addressing the issues in the market as it identifies some of these key areas that need addressing: the difficult and uncompetitive character of the market, which restricts opportunities for new entry and market growth; and the lack of robust market prices.

However, we urge Ofgem to consider strengthening a number of its current proposals, particularly in relation to the product range and clip sizes available under both the Supplier Market Access rules and Market Making Obligation. We also strongly oppose the proposals to have Market Makers exercise their obligation through multiple platforms. We believe that a single platform chosen through a competitive tender process, would better serve the purposes of improving liquidity; whilst minimising costs and the administrative burden for all market participants.

We provide our comments on key areas of the statutory consultation below.

Legal approach to 'Secure and Promote' (S&P)

We welcome Ofgem's proposals to introduce the S&P rules as a special licence condition applying to specific licensees. The alternative, which would see it applied as a standard condition with thresholds, is less desirable, as it could potentially act as a disincentive to growth for those suppliers and generators approaching the eligibility threshold. In addition, the proposed approach correctly identifies those market players who are more likely to drive improvements in market liquidity at the lowest cost.

Supplier Market Access (SMA) Rules

We are largely in agreement with Ofgem's proposals concerning the SMA rules. We are concerned, however, that a number of comments and requests for clarifications that we submitted with our previous response do not appear to have been addressed at all in the statutory consultation. We provide more details about these aspects below.

Product range

In our August response, we suggested that Ofgem consider expanding the range of products covered by the SMA rules. This, we argued, would provide small suppliers with the additional flexibility required in order for them to efficiently meet demand. Having access to at least Quarter+2 and Month+3 products for both baseload and peak will enable better hedging strategies. This is because it would allow independent suppliers to hedge in stages and trade with different generators at different times, and give them access to better shaped products. We continue to advocate this increased level of granularity as it would help eliminate potential barriers to growth.

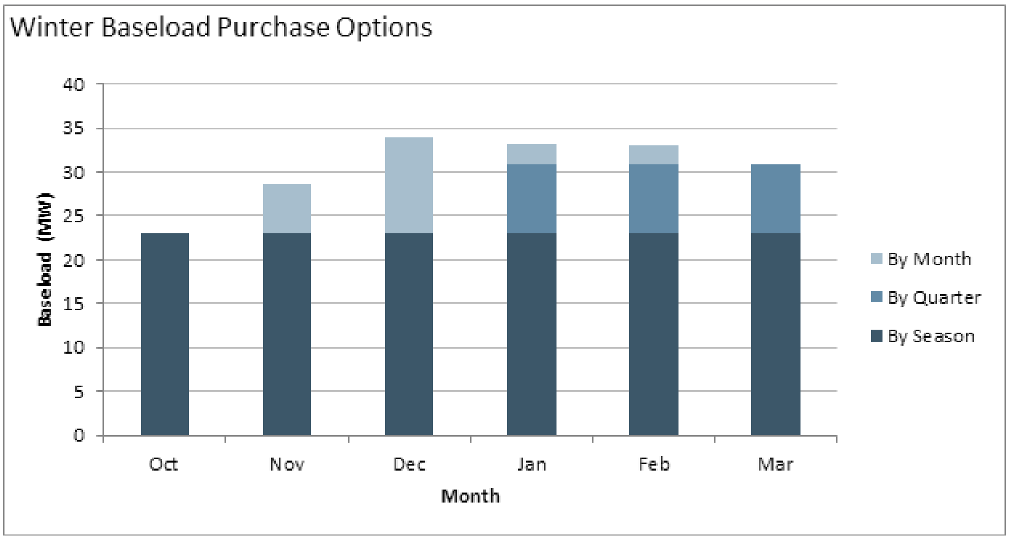
Below is an example of a baseload shape and our options for meeting this based on the product range currently proposed. By comparison, we have also assessed our ability to achieve the necessary shape in the presence of additional quarter and month products. The analysis is based on a scenario where we would seek to cover our winter position in September.

1. **Season Baseload** – If Seasonal product were the smallest granularity, we would be hedging around 23MW of baseload, which means we would be over 10MW of short through some winter months on our baseload position.

2. **Quarter Baseload** – If Quarter product were the smallest granularity, we would be able to hedge an additional 4MW of baseload on average per month for the whole season on top of the winter baseload.

3. **Monthly Baseload –** If Monthly product were available for all months, we would be able to purchase an additional 6MW baseload on average per month for the whole season. This would enable us to achieve a much more accurate shape, hedging an additional volume for 67% of the time during the winter period, with the majority of the benefit coming during November and December.

Unicorn House Russell Street Stroud Gloucestershire GL5 3AX
tel 01453 756111 fax 01453 756222 info@ecotricity.co.uk www.ecotricity.co.uk
The Renewable Energy Company Limited - Axiom House Station Road Stroud GL5 3AP - Registered in Cardiff No: 3043412



In terms of a cash value, a comparison of the additional volume value we can purchase by the different granularities, reveals that the additional purchase of Monthly and Quarterly shape in £ value (at Market prices) compared to Seasonal baseload volume is £1,841,520 under the Monthly Baseload scenario; and £878,279 for the Quarterly Baseload scenario.

We are disappointed that our proposals have not been addressed; and see no link between these and Ofgem's suggestion that any additions to the product range would increase costs and risk of intervention to the S&P licensees. We urge Ofgem to reconsider these aspects and provide more clarity on its rationale for dismissing our proposals.

Clip size

We have repeatedly stressed to Ofgem the importance of allowing clip sizes as small as 0.1MW to be traded under the SMA rules. Similar to the increased granularity of the product range, smaller clip sizes allow small suppliers to more accurately meet customer demand. It is still not clear why Ofgem have changed their initial position, outlined in the January 2013 consultation. This recognised that clip sizes as small as 0.1MW are most likely to reflect volume needs of small players, as they would allow them to create their shape along the curve.

Risk premium

It is unclear what the rationale is behind the argument for an 'objectively justifiable risk premium' as a mitigation measure for the risks associated with trading in small clip sizes. Given that the SMA licensees are by definition large generators, we believe the risk of holding an unfavourable open position, as described in the scenario provided by Ofgem, is unlikely to occur. Specifically, these generators would, in the vast majority of situations, be in the position to meet a 0.5MW request through their own capacity, without having to procure large (e.g. 5MW) blocks to satisfy this.

Therefore, while we would be comfortable with a risk premium that reflects real and plausible risks that S&P licensees would be exposed to; we do not perceive this to be such a risk. It is important that Ofgem provides strict guidance on the interpretation of an *objectively justifiable* risk, in order to avoid these arrangements being used by generators as an incentive for playing the market.

Unicorn House Russell Street Stroud Gloucestershire GL5 3AX
tel 01453 756111 fax 01453 756222 info@ecotricity.co.uk www.ecotricity.co.uk
The Renewable Energy Company Limited - Axiom House Station Road Stroud GL5 3AP - Registered in Cardiff No: 3043412

ecotricity

Market Making Obligation (MMO)

We welcome the majority of Ofgem's proposals, particularly in relation to introducing two hour-long windows for market making. This will concentrate liquidity in these periods, which we see as beneficial. We are also satisfied that these proposals will not allow generators to market make during periods when the trading market is not active, for example during night-time hours, when independent suppliers are unlikely to be trading.

There are, however, elements of the MMO arrangements which will hinder the impact that these will have on improving market liquidity. These are discussed in more detail below.

Product range

Similar to our comments on the SMA rules, we believe that the product range suggested does not provide sufficient granularity to allow small suppliers to hedge effectively. Quarter+2 and Quarter+3 products for both baseload and peak would help address this issue for the reasons highlighted above.

Platform

We strongly disagree with the proposals to have MMO licensees meet their obligation on multiple platforms; particularly given the 'watered-down' platform eligibility criteria. This gives licensees the freedom to market make on obscure or expensive platforms. From small suppliers' perspective, accessing and managing multiple platforms at the same time imposes additional costs and administrative complexity. This hinders their ability to engage in MMO trades, and therefore limits the efficiency of this liquidity measure.

Ofgem needs to take these crucial aspects into account and reconsider its proposals concerning the MMO platform. We propose the alternative of using a unique platform, which could be nominated (for example) yearly through a competitive tender process. Given that the MMO licensees would only exercise their obligation two hours every day, having one platform on which these activities take place will not hinder competition in the platform market during the rest of the trading period. In addition, a single platform would clearly help achieve the greatest level of liquidity.

Clip size

In our August response, we highlighted to Ofgem that 5MW clip sizes are not accessible to small suppliers. Therefore, we argued that these market players will not be able to take part in this market and make requests for trade to the MMO licensees. Whilst we understand that the MMO arrangements are designed to address the liquidity issues on the wider market; rather than purely small players' circumstances; we believe that an assumption that this segment would not be able to participate could be reflected in the robustness of the market prices.

We therefore recommend that Ofgem allows smaller clip sizes to be accessed by small suppliers when making requests to trade at the MMO prices.

Unicorn House Russell Street Stroud Gloucestershire GL5 3AX
tel 01453 756111 fax 01453 756222 info@ecotricity.co.uk www.ecotricity.co.uk

Conclusion

Ecotricity believes that the S&P licence conditions can go some way in addressing low market liquidity. However, it is important that the details of the proposals are carefully considered in order to maximise the outcomes. We have highlighted above the key issues that we have identified in Ofgem's statutory consultation. We welcome the opportunity to respond and hope you take our comments on board.

We also welcome any further contact in response to this submission. Please contact Holly Tomlinson on 01453 769301 or holly.tomlinson@ecotricity.co.uk.

Yours sincerely

Holly Tomlinson
Head of Regulation, Compliance & Projects (Acting)