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Graham Knowles
Wholesale Market Performance
Ofgem
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Email: gb.markets@ofgem.gov.uk

Dear Graham,

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

The Infinis group of companies is delighted to enclose our response to the Ofgem consultation on enhancing liquidity in the GB power market.

We have invested heavily in a broad portfolio of renewable technologies encompassing landfill gas, onshore wind and more recently hydro. As a result, we currently operate 534MW of renewable capacity across 140 sites in the UK. Our UK operations benefit from a sophisticated 24/7 environmental compliance and plant performance monitoring and optimisation system developed internally and based in our Northampton head office.

As a key stakeholder in the renewables market (generating around 10% of the UK's renewable electricity) we support any plans which will improve liquidity in the market. However, it is fundamental that real liquidity is produced rather than a pseudo liquidity whereby the Vertically Integrated Utilities simply buy and sell their own power. In addition it is essential that more is done to improve long term liquidity; focusing on short term liquidity does little to assist independent generators and smaller suppliers who are reliant on Power Purchase Agreements (PPAs) for the bulk of their trading portfolio.

We broadly welcome the proposals and hope that they can go some way towards providing the liquidity required. We believe that if the proposals are implemented it will be vital that Ofgem remain vigilant to ensure that all participants act in good faith and uphold the intention of the licence condition.

We look forward to a positive outcome from this consultation which comes at a time when the UK has a real opportunity to lead the world in low carbon electricity generation. Should you have any questions in relation to our views please do not hesitate to contact Christopher Granby on (01604) 662450.

Yours sincerely,

 **Steven Hardman**
Commercial Director



We believe that any attempt to improve market liquidity can only be a positive move and we are broadly in favour of the license modifications that Ofgem are proposing.

We must note, however, that a true Self Supply Restriction (SSR) would have achieved the stated objectives of increasing liquidity without the added administrative burden, on all parties, that the current proposals will impose.

We are in complete agreement with Ofgem's three policy objectives although we see Objective 1 - availability of products to support hedging, and Objective 2 - robust reference prices along the curve, as being so interdependent that they are to all intents and purposes the same objective.

Objective 3 - an effective near-term market, is vital as this will provide the catalyst for ensuring that the first two objectives are met. While superficially it appears that there has been much improvement in this area we would urge Ofgem to continue to monitor this vigilantly as there is a concern that we are only seeing a pseudo-liquidity whereby the Vertically Integrated Utilities (VIU) are perfectly matching their generation and supply requirements in the near-term market leaving few opportunities to trade for smaller suppliers and generators.

If we look at the intended effect of the policy design we find ourselves in agreement with the aims but remain sceptical that all of the measures will provide the desired outcomes, in particular we feel that the Supplier Market Access rules do not go far enough.

For simplicity we have used the titles from Table 4 in the consultation to set out our comments below.

A1 – Transparency – we agree with the requirements outlined in area A1. It should be made clear that if the potential counterparty provides the complete list of information required then there will be no delays to a formal offer being made.

A2 – Scope – we are in broad agreement with the scope although we believe some minor changes could greatly improve this area. In particular we believe that the generation limit should be lifted from 1TWh to 5TWh. This would enable small generators to consider entering the supply market and also would give small generators access to the wholesale market. We believe that this would improve liquidity and remove the reliance on long term OTC trades.

A second change would be to increase the annual limit that the obligated parties are required to trade. Currently this is proposed to be 0.5TWh for the 8 obligated parties. This means that if a small 5TWh supplier were to sign a trading agreement with each of the obligated parties they would still not be able to fulfill their requirements. We suggest 1TWh to be a more sensible limit.

A3 – Response to trading requests – this is the area which causes us greatest concern. We feel that there is scope for unnecessary delays and the schedule should be tighter. In particular 20 working days appears to be an unnecessarily long time for a licensee to send a response. 5 working days would be more reasonable and is very achievable in our experience as all of the obligated parties are large suppliers with sufficient resources to deal with these infrequent requests. We would prefer to see a more regulated dispute and escalation procedure which

leads to a definitive outcome. The current proposal to “negotiate in good faith until such time as an agreement is reached” does not provide the appropriate incentive to come to a prompt conclusion.

Point 3 states that licensees must respond with ‘legitimate reasons’ as to why they cannot trade. It is difficult for us to imagine any legitimate reason and we would be keen for Ofgem to explicitly list what legitimate reasons could exist.

Points 4, 5 and 6 appear to allow negotiations to continue without a conclusion being reached. We would prefer that each obligated party had an Ofgem approved standard terms and conditions which would not be subject to negotiation. This would greatly speed up the process and remove unnecessary delays.

A4 – Credit and Collateral – this is another area which causes us concern. By their very nature small suppliers are almost certain to be less creditworthy and we have concerns that the obligated parties will implement overly stringent credit policies which could preclude many of the small suppliers from being able to benefit from the proposed license. We urge Ofgem to monitor this area closely and intervene if the credit rules are being implemented unreasonably.

In addition we would like the licensees to clearly state their credit requirements in particular what actions the counterparty can take to ensure a trading agreement is reached.

A5 – Clip Size – we believe that the 0.5MW clip size minima is too large and would prefer to see a minimum clip size of 0.1MW. During the workshops at least one of the VIUs stated that trading 0.1MW clips would not be overly burdensome.

A6 – Product Range – this is a suitable range of products to offer.

A7 – Fair and Transparent Pricing – we agree that the proposals are appropriate. Again we urge Ofgem to remain vigilant and ensure that the fees remain justifiable and protect the beneficiaries from overly burdensome charges and fees.

We believe that the Market Making Obligation is more straightforward and broadly the correct approach to take.

Again for simplicity we have taken each of the headings in Table 5 of the consultation and outlined our thoughts below

Platform – we agree with criteria for selecting a platform

Products – we agree with the list of products which must be offered.

Trade Size – we do not agree with the proposed clip sizes of 5MW. We would prefer that the minimum trade size was reduced to 1MW. For example a baseload generator under a CfD FIT will need to evenly hedge its generation across the preceding season; so as to access the reference price. Hedging 5MW in each trading day in the previous season would result in

600MW being the minimum size plant which could be hedged effectively. Reducing the clip size will help to mitigate this issue and will give small suppliers/generators greater flexibility when financing new projects and procuring/selling energy.

Availability: Main rule – we are in agreement with the decision to move to trading windows. We believe that rather than two one hour windows we feel that windows of two hours length would be more appropriate. This would allow for 4 hours of trading per day and would hopefully see a more measured approach rather than the potential stampede which could occur under the proposed system.

Availability: Reloading – we agree with the reloading proposal.

Availability: Volume Cap - we agree with the volume cap.

Availability: Fast market rule – we do not agree with the fast market proposals. The trading windows are already extremely limited. When this is coupled with the volume cap and the reloading delay it means that the licensees are already well protected against these fast market conditions and their exposure is minimalised. There is no need to add a further opportunity to remove liquidity from the market.

Bid-offer spreads – we agree with the proposals to limit the bid offer spreads.

Transition period – we agree with the bid-offer spread proposals during the transition period.

Obligation to trade – we agree with the trading obligations providing the obligated parties offer reasonable GTMA terms.

Nominating a third party – we have no comment on this.

MiFID reopener – it appears reasonable to review the license conditions once there is more clarity on European legislation.

The final policy aim regarding reporting requirements appears reasonable and proportionate. We agree with Schedules A, B and C from Table 6 within the consultation.