



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

gb.markets@ofgem.gov.uk

18 December 2013

Dear Graham,

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

SmartestEnergy are pleased to see the liquidity project coming to a close as we have keenly followed the proposals through many iterations. We are glad that the Mandatory Auction has been dropped in favour of a Market Making Obligation as this is a step in the right direction especially with the obligation to trade. However, the proposal risks not making as significant a contribution to liquidity as it could without a couple of alterations.

The baseload products captured by the obligation are already fairly liquid. In addition, there has been improvement recently with markets in the peak products. As a result, obliging licensees to post bids and offer prices in the proposed products will not result in much further improvement, although we think it is good to "lock in" those improvements.

Our proposed alterations are as follows: Firstly, we believe that there should be more shape with more products added to the list. We have previously argued for extended peaks (i.e. 07:00 – 23:00) to be added to the list. Secondly, there should be greater coverage as the market is already reasonably liquid 2 years out: the obligation is really needed for 4 years out.

Also, we note that one of the reasons from moving from the requirement to be available 50% of trading hours calculated over the course of each month to two hour-long windows each day was to provide guaranteed opportunities to trade every day to mitigate the risk that certain days would be without market making. We do not agree that having only 2 hour trading windows is sufficient and so argue the 50% availability rule should instead be moved to a daily basis.

The other key elements of the market making obligation seem reasonable.



smarter brighter better

SmartestEnergy Ltd, Dashwood House, 69 Old Broad Street, London EC2M 1QS
www.smartestenergy.com

Registered in England & Wales: No. 3994598



**Marubeni
Group**



We would like to take this opportunity to put forward that it would appear that a Self-Supply Restriction would be a more effective intervention not only to improve liquidity but also to improve transparency in the market especially in the current media and political context. We are not aware of a robust case being made for the dismissal of this form of intervention especially as there were restrictions in place not too many years before the start of this investigation. Re-instating the restrictions would be the ideal solution in the long term. It would remove the need for the many prescriptive rules that are required under Secure & Promote and also be more market-based initiative.

Should you wish to discuss any aspect of these issues further, please do not hesitate to contact me.

Joanna Alexander

Regulation Analyst

smartestenergy

T 020 7448 0955

M 07720088155

E jo-alexander@smartestenergy.com



smarter brighter better

SmartestEnergy Ltd, Dashwood House, 69 Old Broad Street, London EC2M 1QS
www.smartestenergy.com

Registered in England & Wales: No. 3994598



Marubeni
Group