

Secure and Promote market
making licensees

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Dear Colleague,

Market making obligations under schedule B of Secure and Promote on the afternoons of 24th December and 31st December

Under Schedule B of Special Condition AA in the electricity generation licence, the six obligated licensees are required to post bids and offers for each of the mandated products during the two trading windows on every business day.¹ The 24th and 31st December are both business days.

Certain licensees have approached us regarding the evidence of effective closure of the GB power, gas, and carbon markets during those afternoons. In addition, the power price assessments are moved forward earlier on those days before the afternoon window starts. The possible consequence of the inability to access underlying fuel markets in particular has been raised as a risk for the obligated market makers that prevents robust pricing and that creates undue risk.

The policy intent is that independent suppliers and generators should be able to access products offered by market makers. In particular, the intent of schedule B of the licence condition is to:

- make products available when they are likely to be demanded, and
- create robust prices for those products when the prices are required.

The policy intent is not to create onerous operating conditions for licensees nor is it to force market makers to be exposed to undue risk.

The data presented to us show negligible trading during those afternoons over the last two years. It appears that the market does not traditionally expect products to be available on those two afternoons.

Ofgem's policy position is that an absence of market making products in the afternoon windows of 24 and 31 December 2014 would not undermine the intent of Secure and Promote. This position is on the basis that:

- the underlying fuels markets are effectively closed on the afternoons of 24 and 31 December 2014

¹ As defined by the balancing and settlement code

- price reporting agencies will be posting their end of day price earlier on that afternoon before the afternoon window starts, and
- the evidence available to us suggests that there is likely to be negligible trading on these afternoons.

Ofgem would take the above policy position into account in deciding whether to undertake further action should it become aware that obligated licensees do not fulfil the market making obligation on the above-mentioned afternoons.² Should it be required, we will consider any further response to the issue in 2015 and will keep stakeholders up to date of any further action.

Yours sincerely,

Philippa Pickford
Interim Associate Partner, Wholesale Market Performance

² Ofgem takes decisions on enforcement action in line with its Enforcement Guidelines on Complaints and Investigations.