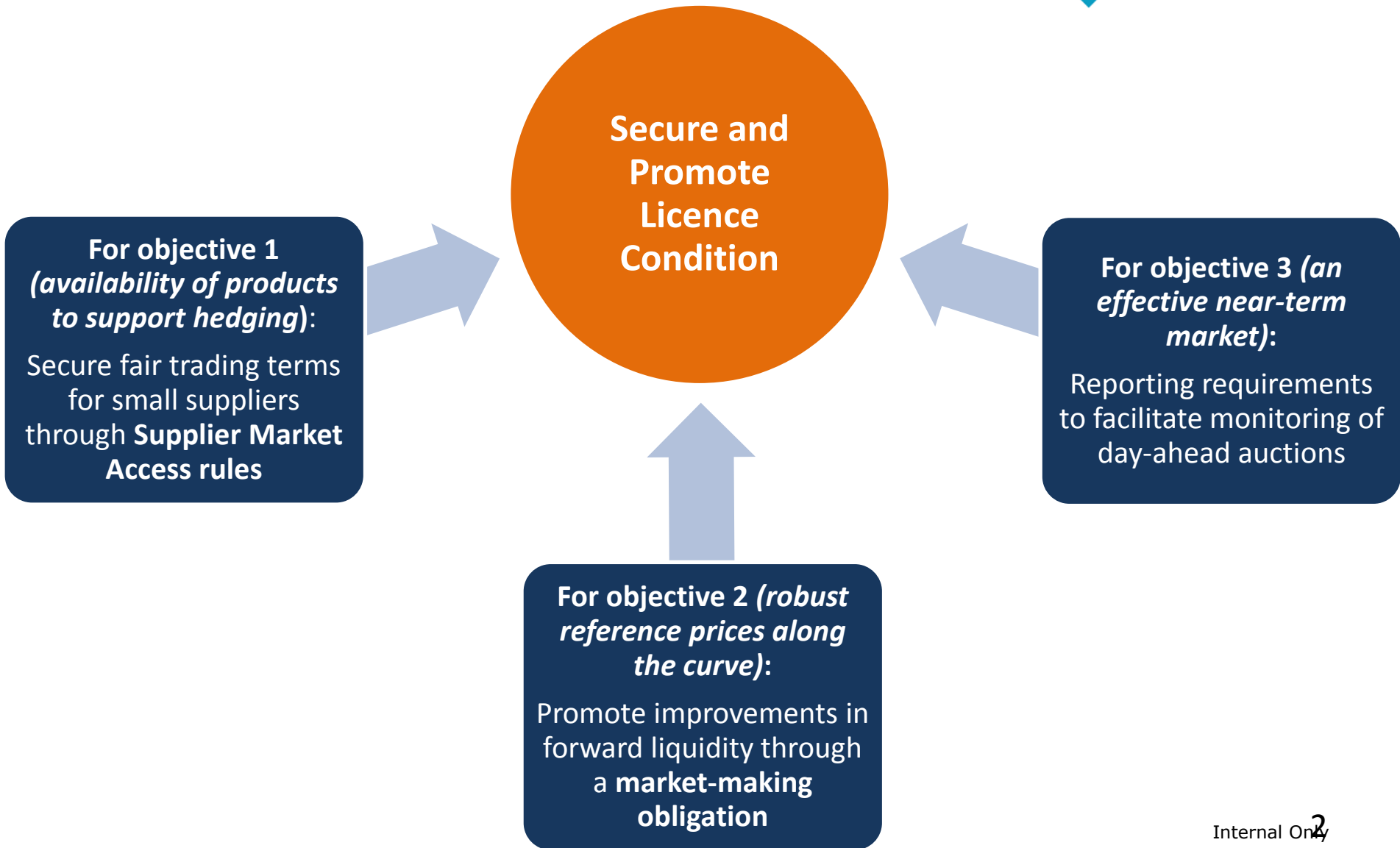


Liquidity “Secure and Promote”- Monitoring update

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27/10/15

ofgem



➤ **Supplier Market Access Rules (SMA)**

Rules to ensure small suppliers can access the wholesale products they need
Need to consider applications within specified timeframes, offer proportionate credit and collateral terms, be transparent

➤ **Market making obligation**

Licensees must post bid and offer prices in the market, supporting price discovery, and ensuring regular opportunities to trade

➤ **Reporting requirements**

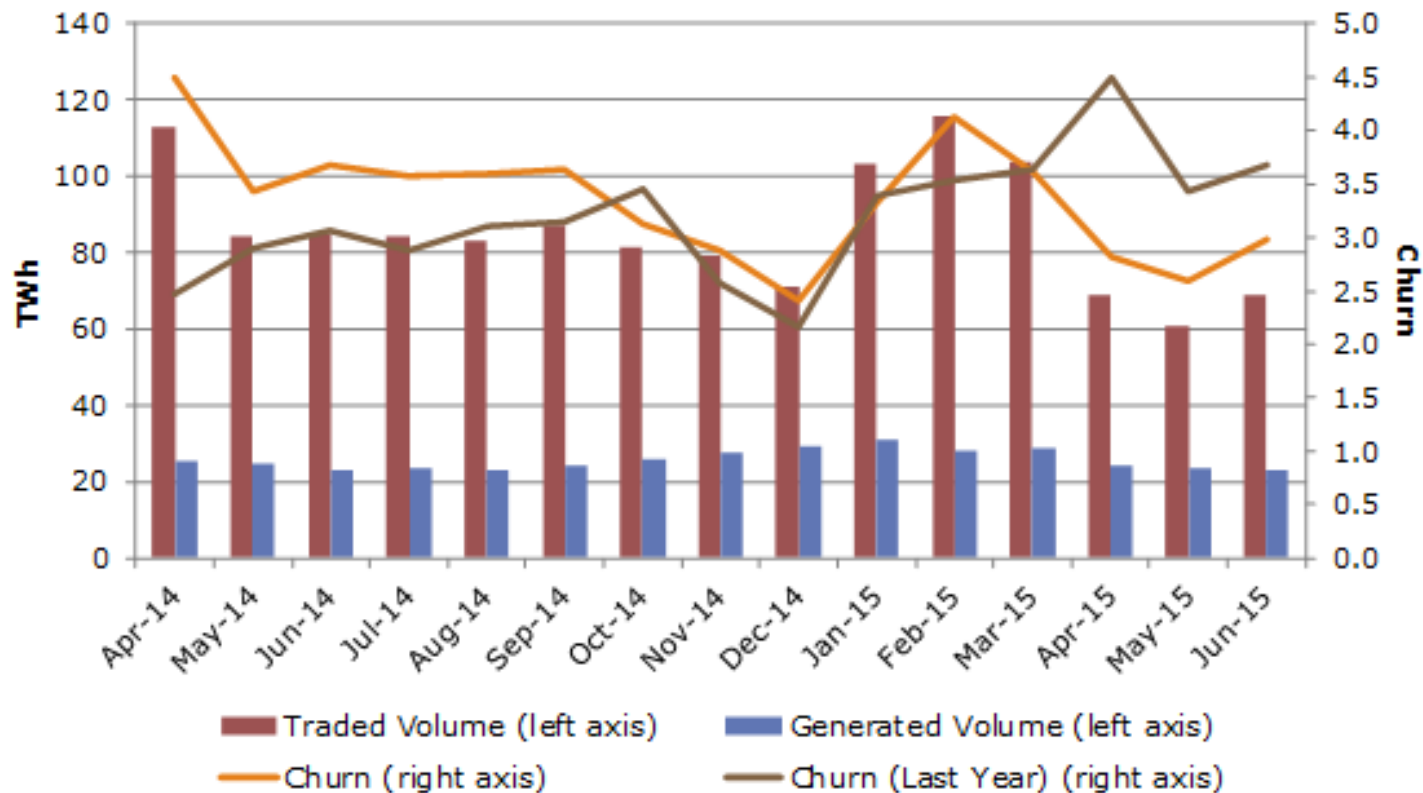
Monitoring of near-term exchange volumes to ensure it remains liquid
Quarterly reports required, with ad-hoc data checks

Maximum Bid-Offer Spread

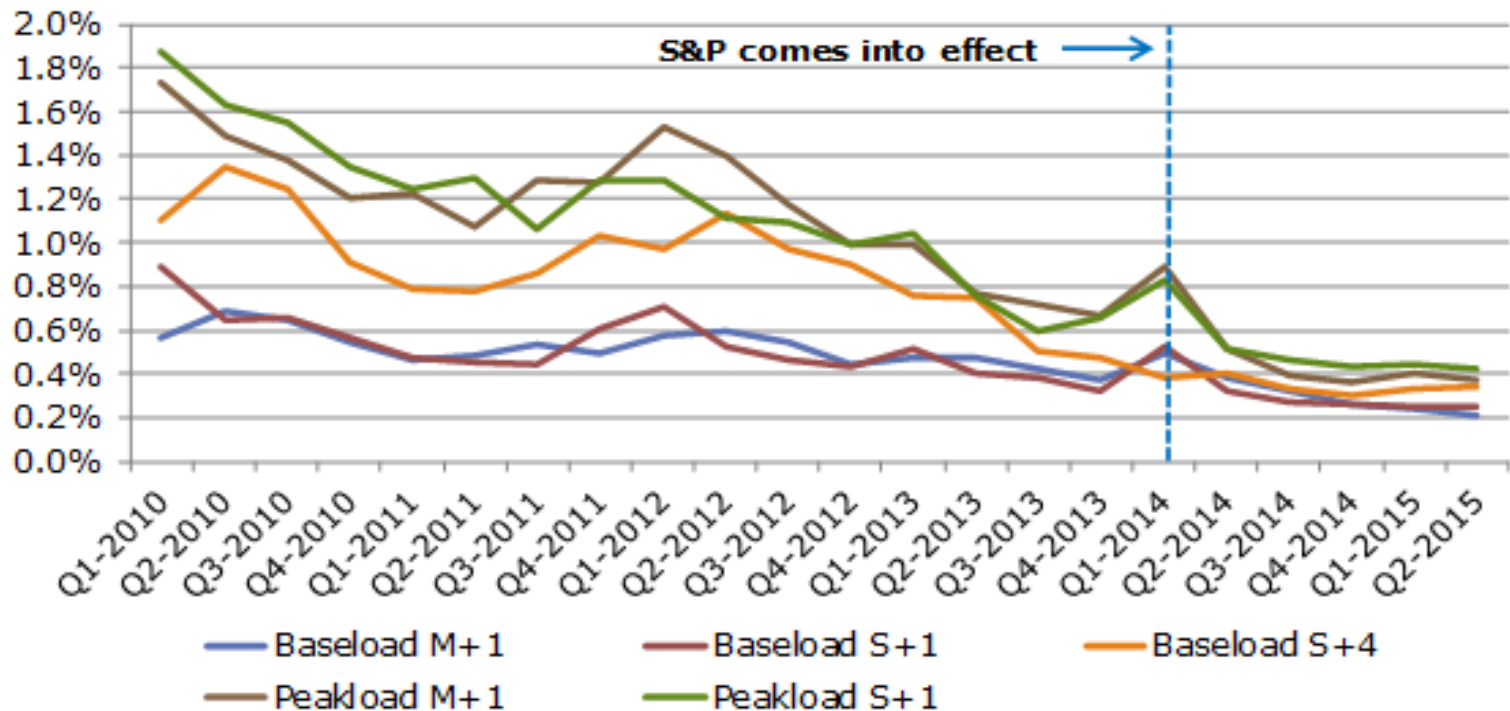
	Baseload	Peakload
Month+1	0.5%	0.7%
Month+2		
Quarter+1		
Season+1		
Season+2	0.6%	1.0%
Season+3		
Season+4		

1. Largest VI suppliers must place bids and offers with a maximum spread as shown in the table
2. Bid-offer spreads are to be maintained for the full duration of two daily liquidity windows from 10.30-11.30 and 15.30-16.30
3. Bids and offers must be available to trade in 5 MW and 10 MW clip sizes

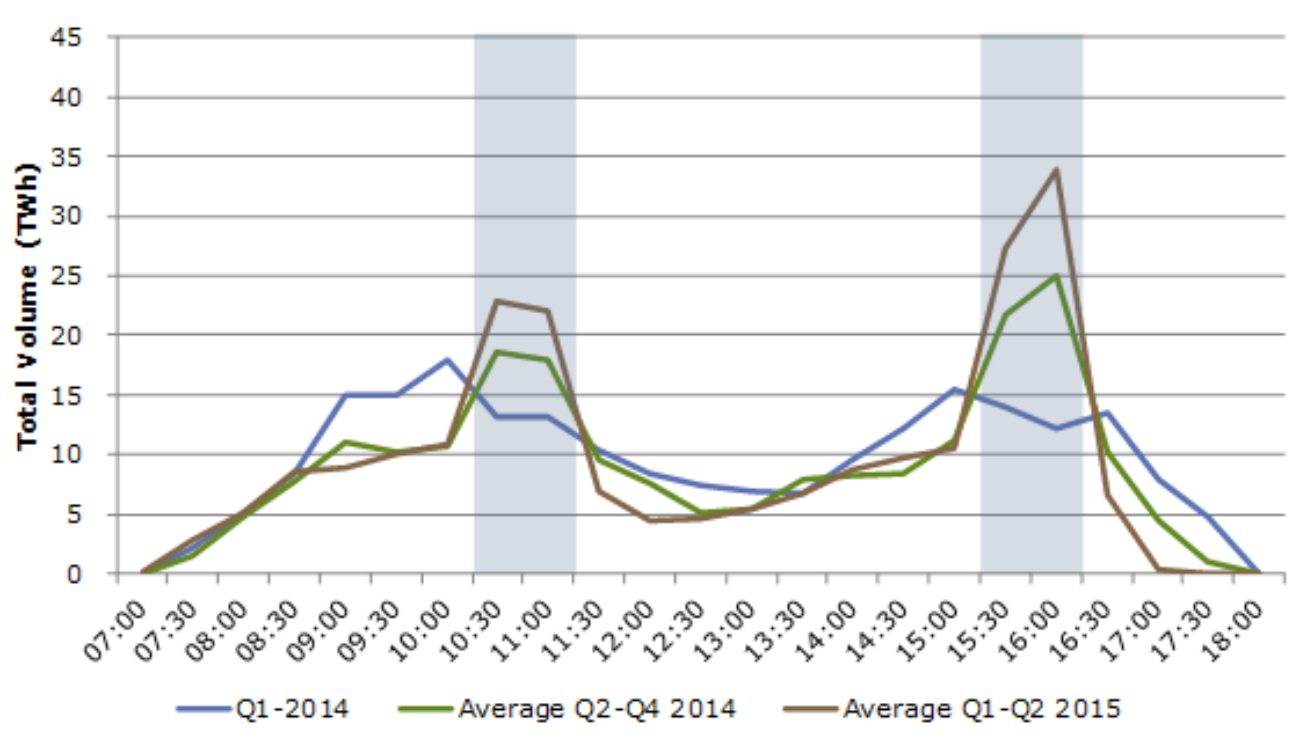
- Churn has increased year-on-year in the first year of monitoring but fell in Q2 2015



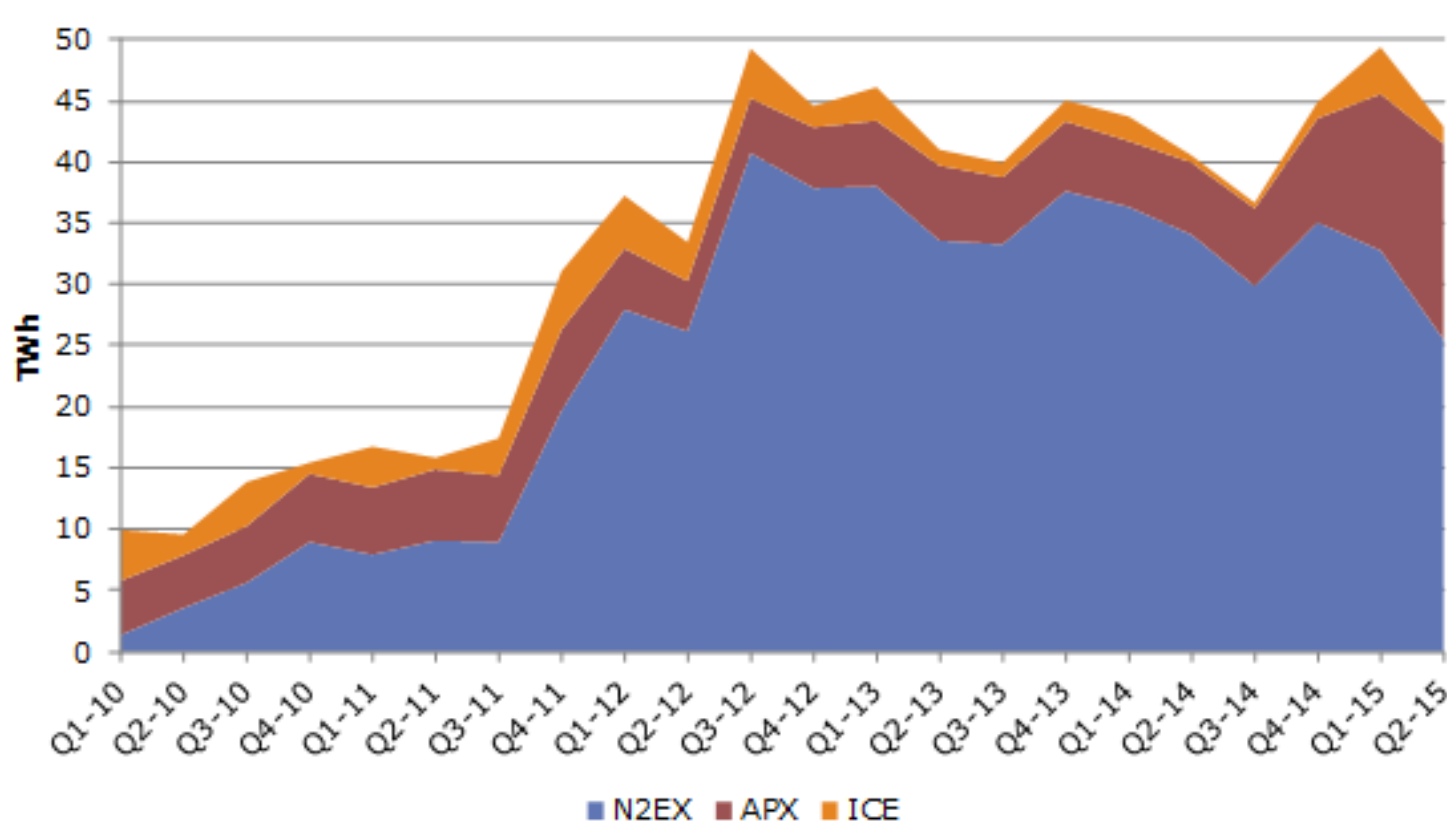
- Useful indicator of liquidity – shows the extent to which prices reflect market value
- Downward trend since 2010, stable since Q4 2014, reflecting the influence of Secure and Promote mandatory spreads, as data is assessed at close of trade



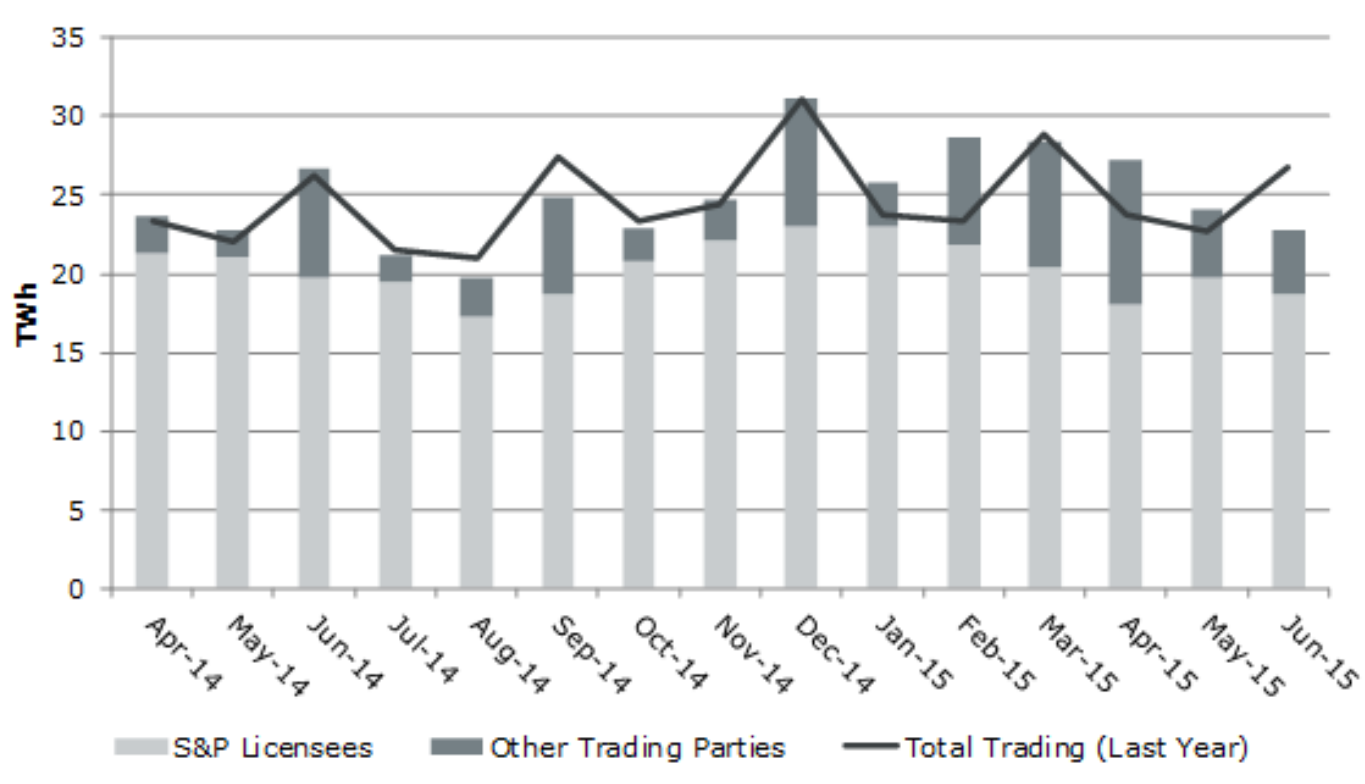
- Trading volumes have risen in the windows, particularly in the afternoon, and have stayed broadly static between the windows
- Less trade taking place at the end of the day and mid-morning compared with Q1 2014, but the evidence does not suggest product availability or price robustness are being adversely affected overall



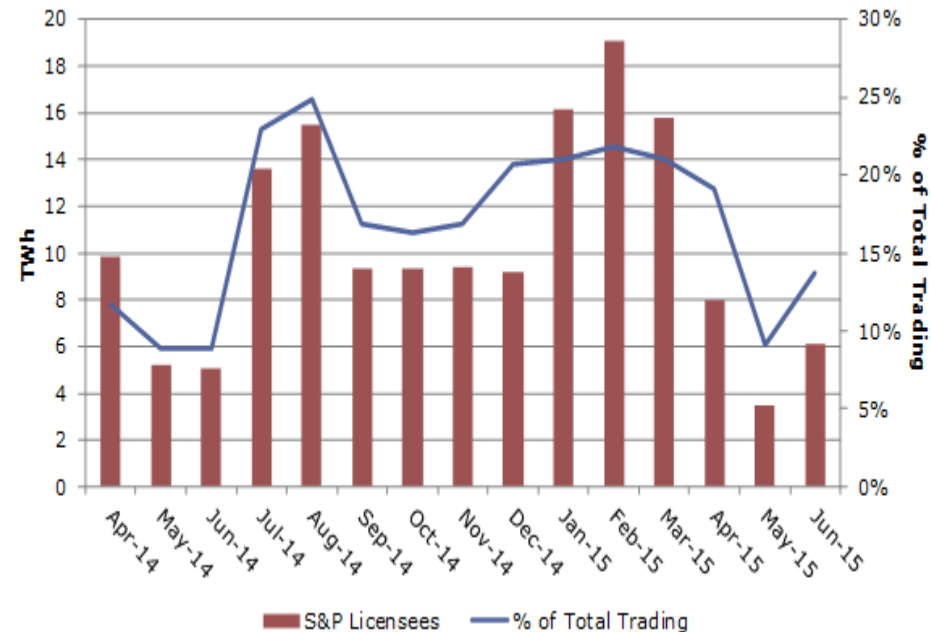
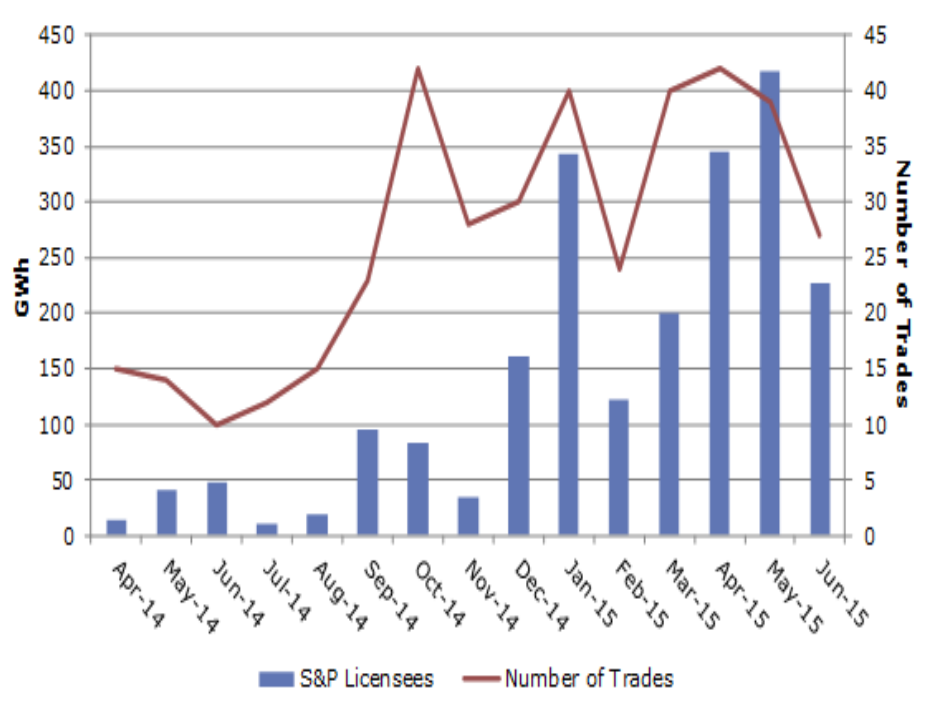
- The near-term market has remained liquid since Secure and Promote
- Exchange trading volumes are comparable year-on-year and intraday trading is on a slight upward trend since Secure and Promote



- Day-ahead exchange trading has remained comparable year-on-year
- Day-ahead trading continues to be dominated by the six largest VI companies and large independent generators (average share of 82%)



- Mixed volumes traded in the market-making windows – positive in first year, but fall in Q2 2015 in line with lower OTC volumes
- SMA volumes - increase in trading with eligible suppliers
- Trading volumes remain concentrated in a few contracts, in particular for delivery one season and two seasons ahead



- Many independent suppliers told us they are finding it easier to access products and that the obligated licensees' responsiveness to trading requests has improved
- General impression that prices in the windows are more robust than they were before Secure and Promote
- Feeling that there is an improvement in trading conditions, which will benefit new entrants who need to trade power to hedge - but, getting desired credit lines and the costs of posting collateral remain the main difficulties for independent suppliers
- In general, sentiment that has been a positive change, some stakeholders are still concerned that liquidity is being concentrated into the windows

Notable improvement in liquidity over the first year of monitoring, but a decline in the most recent quarter Q2 - S&P may be just one factor behind these trends.

Many factors could have influenced participants' view of risk in 2014/15 including:

- geopolitical events in Ukraine
- day-ahead market coupling in North West Europe (Q1 2014)
- GB-specific events: higher price volatility in 2014, shift in relative attractiveness of spark spreads in Q2-Q3 2014 and Q1 2015, supply-side events in the GB market (Q3-Q4 2014), political uncertainty preceding the General Election (Q1 2015), lead-up to the increase in the carbon price support level
- falling oil price

Low price, low volatile environment in Q2 2015, and a notable fall in market activity. The lower level of price risk perceived by participants has caused them to trade and hedge less.

It is too early to make any robust conclusions, we need a longer time-set of data

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.

Schedule 1: Supplier Market Access (SMA) rules

Area	SMA rules
Transparency	Provide named contacts and information needed to process a trading request
Scope	Rules apply to suppliers of less than 5TWh and less than 1TWh of generation, Eligible Suppliers list by Ofgem.
Response	Acknowledge receipt, written response, timely negotiations, offer a meeting, negotiate in good faith (both licensees and small suppliers)
Credit and collateral	Offer proportionate arrangements: following an established process, assess individual circumstances, discuss credit support options, terms clearly linked to assessment done. Credit Transparency Form.
Clip Size	As small as 0.5MW, minimum increments of 0.5MW (max is 10MW)
Product range	Baseload: Week+1, Month+1, Month+2, Quarter+1, Season+1, Season+2, Season+3, Season+4, Peak: Week+1, Month+1, Month+2, Quarter+1, Season+1, Season+2, Season+3
Transparent Pricing	Provide a quote as good as the best price available to the licensee in the market for the relevant product. May add a risk premium for small clip sizes and fees from procuring externally but no internal costs

Area	Market Making policy design
Platform	Accessibility criteria in terms of products, independence, activity and information
Products	Baseload: Month+1, Month+2, Quarter+1, Season+1, Season+2, Season+3, Season+4 Peak: Month+1, Month+2, Quarter+1, Season+1, Season+2, Season+3
Trade size	Clip size of 5MW, max is 10MW
Availability	Main rule: 100% availability during two hour-long windows each day (10:30am and 3:30pm)
	Reloading: replace bid-offer 5 minutes after trading the product
	Less than 100% availability allowed only if: <ul style="list-style-type: none"> • Volume cap: net volume of 30MW in single window for a product • Fast market rule: price change of 4% for a product, lift obligation within window. Licensee identifies fast market and must report to Ofgem

Area	Market Making policy design
Bid-offer spreads	Baseload Month+1, Month+2, Quarter+1, Season+1, Season+2 : 0.5% Baseload Season+3, Season+4: 0.6% Peak Month+1, Month+2, Quarter+1, Season+1, Season+2: 0.7% Peak Season+3: 1%
Transition period	For April-June 2014 spreads allowed were 0.2% higher for all products
Obligation to trade	Must trade at posted prices given normal prerequisites are in place
MiFID reopener	Review the license condition once there is more clarity regarding the MiFID