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Dear Mark and Hannah

REVIEW OF SECURE AND PROMOTE

First Utility welcomes this opportunity to respond to the three-year review of the "Secure and Promote" licence condition, introduced by Ofgem in 2014 to improve independent suppliers' access to the wholesale market.

As you know, in 2013 First Utility signed an agreement with Shell Europe to act as our trading counterparty. As such our experience will be different to many independent suppliers. This letter therefore sets out our general observations on how the scheme has operated thus far.

The Secure and Promote obligations (the "Obligations") require the five largest integrated utilities to buy and sell a mandated range of products during two "windows" : 10:30-11:30 am and 3:30-4:30pm.

In First Utility's experience, the Obligations have indeed had a positive impact, with the bid-offer spread for mandated products narrowing.

At the same time, however, we note - and have long noted - that for newer entrants and smaller suppliers to hedge effectively, more granular products covering shorter time periods will likely be needed, allowing suppliers to buy "shape" ahead of time, rather than simply peak and baseload with corrections made in the near-time market. This is important as hedging is a key part of risk management, which suppliers should be doing as effectively as they can on behalf of their own customers.

The near-term market itself seems to be fairly liquid, particularly the day-ahead hourly auction. However, this might be because, for many suppliers, the near time market is the only way to hedge for periods of the day with higher usage. With imbalance prices increasing, small suppliers will be further exposed if they cannot hedge their shape properly.



Our initial conclusion is therefore that overall, Secure and Promote has had a positive impact, although it is not necessarily delivering all the products smaller suppliers need if they are to trade effectively.

At the same time, we note that the CMA concluded in June 2016 that wholesale market access was not a barrier to entry for small suppliers and, subsequently, that the number of new entrant suppliers joining the market has continued to grow, with 20 new entrants this year alone.

With this in mind, we believe Ofgem should continue Secure and Promote but, before extending it to a wider range of products, consider monitoring and reviewing the hedging strategies of smaller suppliers to evaluate whether these are robust, or whether the lack of more granular products in the Obligations is acting as a barrier to those providers being able to fully hedge their retail offerings.

Yours sincerely,


Jeremy Guard
Head of Risk and Industry Codes