

Secure & Promote Review – Hudson Energy Supply UK Limited

September 19, 2017

Matthew Gardner/Hannah Hopper
Market Intelligence and Oversight Energy Systems,
Ofgem 9 Millbank
London SW1P 3GE

Dear Mr. Gardner/Ms. Hopper:

Following the Mandatory Market Making Obligation set by OFGEM we have seen a considerable change in trading behaviour in the OTC market. With two windows from 10:30 to 11:30 & 15:30 to 16:30 during the day we have seen improved liquidity for the front two months and front two seasons on the curve, with more bid offer spreads being put on the screen. The current framework has improved access to the market for small suppliers but is not yet ideal and can be significantly improved. The following are 4 key areas where Hudson Energy would like to see further developments:

1) Liquidity Windows

Current liquidity windows are limited to two one hour slots during the day, this has restricted the trading opportunities to these set times. As a retail business that sells products to customers throughout the day there is a timing risk involved with the current framework. Many suppliers' structure additional risk premiums into their customer contracts to cover this risk which is to the detriment of customers. Our recommendation is to increase the number of liquidity windows and/or to increase the length of the current liquidity windows.

2) Clip sizes

Current OTC clip sizes are restrictive to many small suppliers. Often there are all or nothing trades being placed as bids or offers. We would like to see a reduction in clip sizes to 1MW across all product ranges. This will enable a more efficient and flexible matching of supply & demand, ensuring that suppliers are able to provide customers with the sharpest and most competitive prices.

3) Product Range

The products specified under the market making are only restricted to baseload and peak. For a retail supplier this is not a sufficient product range as a retail portfolio is based on customer consumption shape, with variable demand patterns across the day. Baseload & peak products are more suited to a generators profile but not match retail consumption shape. Our recommendation is that the product range on the MMM window be expanded to include more granular products, as per the table below. This will give suppliers the tools to shape customer demand better and thus hedge customer retail load more efficiently.

Period	BL	PK	ON	WD3 & WD4	WD5 & WD6
DA	Yes	Yes	Yes	Yes	Yes
WA	Yes	Yes	Yes	Yes	Yes
Week + 2	Yes	Yes	Yes	Yes	Yes
Month Ahead	Yes	Yes	Yes	Yes	Yes
Month + 2	Yes	Yes	Yes	Yes	Yes
SA	Yes	Yes	Yes	Yes	Yes
Season + 2	Yes	Yes	Yes	Yes	Yes
Season + 3	Yes	Yes	Yes		
Season + 4	Yes	Yes	Yes		
Season + 5	Yes	Yes	Yes		
Season + 6	Yes	Yes	Yes		

4) Increase in the number of Market Participants

The current framework only places an obligation on the top 6 generators to participate in the MMM window. With companies such as EON restructuring their generation business and with others set to follow, we are concerned that the number of generators and levels of liquidity will reduce in the future. We recommend that more generators should be obligated to participate in the window. Our proposal is that any generator of any fuel type with a portfolio bigger than 1GW should be mandated to join the framework. This will ensure more market competition, with increased levels of liquidity and a fairer price of electricity for all customers.

Kind Regards,



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