Secure and Promote review: Consultation on changes to the special licence condition

Consultation

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Contact: Kristian Marr, Senior Economist
Matthew Gardner, Economist
Team: Market Intelligence and Oversight
Tel: 020 79021 7213/020 3263 9872
Email: wholesalemarketoperation@ofgem.gov.uk

Overview:

In summer 2017 we consulted interested parties on the impact of the Secure and Promote special licence condition on wholesale electricity market liquidity and on the possible need for change. This consultation outlines our proposed amendments to the licence condition, and the evidence supporting them. We are seeking stakeholder views on these. The amendments aim to reduce the costs of the licence condition on the obligated licensees in the short-term, whilst maintaining the core policy and benefits.

Context

Our principal objective when exercising our functions is to protect the interests of existing and future consumers. Understanding the impacts of the Secure and Promote licence condition, and proposing amendments where applicable, is an important part of our role in protecting consumers.

Liquidity in the wholesale electricity market in GB was in a period of decline since 2001 and is lower than some other energy and commodity markets, including some European electricity markets. Ofgem's Energy Supply Probe in 2008 found that low liquidity in the electricity market was a concern, as it created a barrier to new entry into supply markets and a source of competitive disadvantage for independent suppliers.

Secure and Promote was introduced in 2014 to improve liquidity in the GB wholesale power market to help underpin well-functioning, competitive generation and supply markets. This benefits customers through downward pressure on bills, and greater choice of suppliers.

At the time of its implementation, we said we intended to carry out a review after at least three years. In the summer of 2017 we consulted stakeholders to get their views on the impact of the licence condition on wholesale power market liquidity and market participants, and on the possible need for change. After assessing these responses, this consultation sets out our proposed amendments to the licence condition and the evidence supporting these.

Associated documents

- Wholesale power market liquidity: consultation on a 'Secure and Promote' licence condition (Dec 2012)
- Wholesale power market liquidity: final proposals for a 'Secure and Promote' licence condition (Jun 2013)
- Wholesale power market liquidity: statutory consultation on the 'Secure and Promote' licence condition (Nov 2013)
- Wholesale power market liquidity: statutory consultation on the 'Secure and Promote' licence condition - Impact Assessment (Nov 2013)
- Secure and Promote: wholesale power market liquidity decision letter (Jan 2014)
- Liquidity in the Wholesale Electricity Market (Special Condition AA of the electricity generation licence): Guidance (Jan 2014)
- Wholesale Power Market Liquidity: Interim Report (Dec 2014)
- Retail Energy Markets in 2015 (Sep 2015)
- Wholesale Energy Markets in 2015 (Sep 2015)
- Wholesale Power Market Liquidity: Annual Report (Sep 2015)
- Wholesale Power Market Liquidity: Annual Report (Aug 2016)
- Workshop on Secure and Promote policy (May 2017)
- Secure and Promote Review: Consultation (Jul 2017)

Contents

Executive Summary

We committed to reviewing the Secure and Promote (S&P) policy no earlier than three years after introducing it in March 2014. This policy was designed to deliver Ofgem's liquidity objectives for the wholesale electricity market as we were concerned that poor liquidity was posing a barrier to effective competition. As part of our commitment to review the policy, we published our "Secure and Promote Review: Consultation" in July 2017. This aimed to gather stakeholder views and further evidence of the impact of policy so far.

We are now seeking stakeholder views on our proposed amendments to the S&P special licence condition, specifically to the market making obligation (MMO). These proposals aim to address stakeholder concerns relating to the higher than expected costs of compliance in volatile markets, and form part of our initial, short-term work on the S&P review.

We recognise the proposals in this consultation do not address all of the issues stakeholders raised in their responses. We are still planning to carry out further work on the S&P licence condition review in the medium- to longer-term. In the coming year, we are aiming to review the criteria for obligated parties to make them clearer. We also plan to conduct a more fundamental review of the policy when we have further evidence of its effectiveness over a longer period. This will allow us to take into account other aspects of the changing market.

Responses to our July consultation

We received 22 responses to our consultation in July from a wide range of stakeholders. Respondents' views on our assessment and our questions varied significantly. We were able to identify and categorise responses into three broad themes:

1) **Maintain the policy** as it has delivered benefits

2) **Increase the scope**, mainly to support more mandated products

3) The **benefits of the policy are unclear**, and it has created significant costs and market distortions

Respondents broadly agreed with our high-level assessment of liquidity, although they found the benefits difficult to quantify and could not agree whether they could be attributed to S&P. They had generally observed robust prices and a good availability of products. This had enabled them to better hedge their activities, and robustly price their supply contracts and power purchase agreements (PPAs). General feedback was liquidity is good inside the market making windows and for mandated products.

We also received some feedback that the design of the policy had turned out to be more distortionary than anticipated before implementation. For example, the market making windows had drawn market activity from other parts of the day into these windows. Some stakeholders liked the certainty of availability and 'deep pools' of liquidity in the windows, others stated that it made some of their business activities difficult as they could not always access prices outside of the windows.

Licensees reported their compliance costs increased over 2016. They attributed this to the volatility in quarters three and four of 2016. Licensees explained that this was a result of market making at the prescribed bid-offer spreads when prices were moving significantly and rapidly. We were told that this effect can be most pronounced at the start of market making windows where the narrow bid-offer spreads make price discovery difficult and prices can move very quickly.

We asked specific questions in our July consultation on the fast market rule, and the interactions of the policy with volatile markets. Licensees broadly thought the fast market rule and volume cap had not sufficiently prevented costs from escalating during market volatility. Other stakeholders were concerned about any loosening of the rules that could affect availability.

We received a broad range of suggestions to alter the existing MMO. Some independent suppliers and generators suggested including more products, while several respondents suggested changes to spread liquidity over the day. The most consistently raised point outside of the specific questions we asked was around the criteria used for selecting those to discharge the MMO, and whether these need to be revisited. This is on the back of several large market participants having (or being in the process of) restructuring their businesses and the CMA's findings on vertical integration not being a significant barrier to wholesale power market liquidity. Respondents felt that this may mean that the obligation is now falling disproportionately on the remaining parties.

Overall, we believe the combination of the analysis presented in our previous consultation and the responses to that consultation suggest that the policy has likely met its aims and helped to support market liquidity. We feel that any significant changes at this point, including the removal of the policy, could jeopardise the support on which some market participants rely. It is on this basis that we have decided to maintain the core elements of the policy at this stage and to consult on policy amendments in the short-term which could mitigate rising costs for obligated licensees during times of volatility. This will enable us to assess how the policy has impacted liquidity over a longer period and a wider range of market conditions.

Proposed amendments to the licence condition

Responses to our July consultation highlighted concerns about increasing costs on licensees from complying with the MMO. Licensees provided evidence that these costs were increasing beyond the original estimates during periods of market volatility. These costs broadly arise from restrictions on bid-offer spreads during volatile market periods making price discovery is more difficult. In this consultation, we are proposing two measures to help mitigate these costs:

- A **soft landing** period of ten minutes at the beginning of each market making window with wider bid-offer spreads

- A new **fast market rule** to widen bid-offer spreads in the market making windows when the price moves by ±1% from the first trade of the window

The wider bid-offer spreads for both amendments will be up to 1% across all Products.

Soft landing

Some market participants told us prices often move significantly around the beginning of market making windows. Our own analysis shows prices do tend to move most at the start of these, and is particularly evident in the first 10 minutes of the window. Price discovery for obligated parties can then be more challenging due to wide bid-offer spreads outside of the windows, or even an entire absence of these. This can have cost implications if the market makers get market sentiment wrong. This pattern is an unintended consequence of the MMO design and should not be necessary for the MMO to deliver liquidity benefits.

We are proposing to widen the bid-offer spreads during these first ten minutes of market making windows up to 1% across all Products. This should facilitate a more natural process of price discovery, reduce the distortionary effects of the policy and help reduce avoidable costs for licensees.

We still believe that our original market making spreads are broadly meeting our policy objectives. Further, we do not anticipate that widening spreads for this period should create any significant adverse effects for market participants.

Fast market rule

The current S&P licence condition contains a 'fast market' rule designed to be used sparingly and to reduce the risk of making significant losses in periods of volatility. It allows licensees to withdraw from posting bids and offers in the designated market making windows if prices for a product increase or decrease by 4% compared to the first trade in the window.

Feedback from licensees suggested the threshold has been hit too infrequently, and it was insufficient in preventing licensee costs from escalating during market volatility. Our own analysis shows the current threshold has been only been triggered in 0.7% of windows between the beginning of 2015 and July 2017. This is significantly below the 'couple of percent' of windows initially intended and supports some relaxation of the threshold. However, smaller suppliers have told us that the certainty of availability can be particularly helpful during volatile markets.

We are proposing to keep the current 4% fast market threshold allowing licensees to withdraw from their obligations for the remaining duration of the window. However, we are proposing to allow licensees to widen their bid-offer spreads at a lower 1% threshold. When this level is reached, licensees will be able to post bid-offer spreads up to 1% across all Products.

We believe a complete withdrawal from the window would be an extreme provision at a lower threshold. This alternative solution should allow licensees to significantly reduce their costs in future periods of volatility while still preserving many of the liquidity benefits for market participants.

1. Introduction

Background

1.1. The Secure and Promote (S&P) licence condition came into effect within the licences of certain electricity generators on 31 March 2014. It was designed to deliver Ofgem's liquidity objectives for the wholesale electricity market.

1.2. At the time, we were concerned that poor wholesale electricity market liquidity was posing a barrier to effective competition and entry in the generation and supply market. The costs of low liquidity and associated barriers to competition ultimately fall on consumers and prevent them from benefitting fully from competition.

1.3. The licence condition has three liquidity objectives which represent characteristics of the wholesale electricity market that are necessary to support effective competition. These are:

1) to **promote the availability of products that support hedging** by introducing minimum service standards for trading between eligible suppliers and the largest eight generators, called **Supplier Market Access** (SMA) rules

2) to promote robust reference prices for forward products through a **market making obligation** (MMO) on the six largest vertically integrated companies[1]

3) to **secure near-term market liquidity** through **a reporting requirement of day-ahead trading** of the six largest vertically integrated companies and the largest independent generators.

1.4. Additional information on the policy aims, and our monitoring of it, can be found in the documents listed in the Associated Documents (page 2). Our "Secure and Promote Review: Consultation" published in July 2017 provides the most recent update.[2]

Secure and Promote review

1.5. We said we would review the policy at least three years after implementing it in March 2014. Our review so far has been through market monitoring since the introduction of the policy, as well as a workshop[3] and a consultation more recently.

[1] There are currently five obligated licensees under the market making condition.
[2] Secure and Promote Review: Consultation.
https://www.ofgem.gov.uk/system/files/docs/2017/07/liquidity_consultation_july_2017_final_0.pdf
[3] In May 2017 we held a workshop on the Secure and Promote policy. We gave a short presentation on the policy, and it provided an opportunity for stakeholders to share and discuss their views. Presentations and attendees are available here: https://www.ofgem.gov.uk/publications-and-updates/workshop-secure-and-promote-policy

1.6. Our July consultation allowed a range of stakeholders to provide us with views and evidence on the impact of the policy so far. Responses are summarised in chapter 2.

1.7. Chapter 2 of this document summarises the responses we received from our "Secure and Promote Review: Consultation" published in July 2017. Chapter 3 outlines our proposed changes to the Secure and Promote licence condition and the evidence we believe supports them. The proposed licence condition is in Appendix 2.

2. Responses to July consultation

Overview

2.1. We received 22 responses to our July consultation. These came from obligated parties (i.e. those licensees who are subject to the MMO), independent generators, independent suppliers, intermediaries and large purchasers. Respondents' views on our assessment and our questions varied significantly, for the main part reflecting the views we received through stakeholder engagement before consultation. Some respondents provided additional quantitative evidence, although the majority of responses were of a qualitative nature. In this chapter, we summarise the key themes from the responses.[4]

2.2. At a very broad level stakeholder views can still be put into three categories, with responses split evenly across these:

- **Maintain the policy as it is**. It has delivered positive benefits and any significant relaxation of the rules would have a negative effect on liquidity.
- **Increase the scope of the policy**. Secure and Promote (S&P) has provided liquidity support for the MMO mandated products but this does not cover all the products needed to hedge load shape. Mandate further products for the MMO.
- **The evidence that the policy has supported liquidity is unclear**, costs of compliance are significant and the intervention is an unnecessary market distortion. Significantly relax the MMO parameters, remove the MMO or explore alternative interventions.

What did respondents tell us?

Views on the state of liquidity

2.3. In general, respondents agreed with our high-level assessment of liquidity. Many had observed generally robust prices and availability of products. However, opinions on whether this could be attributed to the S&P policy were divided. We also received feedback that the design of the policy had turned out to be more distortionary than anticipated prior to implementation.

2.4. General feedback was that liquidity is good inside the market making windows and for mandated products. However, many respondents noted that liquidity outside the windows had suffered as a consequence. This effect of drawing all market activity into the windows had become more extreme since the implementation of S&P.

[4] All the non-confidential responses to the consultation are available to download here: https://www.ofgem.gov.uk/system/files/docs/2017/11/all_responses.zip

2.5. Prices were generally thought to be robust, but some respondents thought they were already robust before the policy was introduced. While some liked the certainty of availability and 'deep pools' of liquidity created by the windows, others stated that it made some of their business activities difficult as they could not always access prices when they needed to (eg outside of the window).

2.6. The vast majority of respondents felt that near-term liquidity is good at least up to day ahead. However, some noted that liquidity in products for delivery between the day ahead and month ahead was fairly limited. One respondent noted decreasing volumes of near-term products being traded over-the-counter (OTC) through broker platforms. Some respondents also noted onerous clearing and settlement arrangements with one near-term exchange, and one felt that frequent paradoxically rejected blocks[5] on another day ahead market was an issue.

Costs and benefits

2.7. Several obligated parties provided us with information on the costs of discharging their MMO. Some of this information was provided in direct response to the consultation and some was provided during prior stakeholder engagement. We received cost estimates from four licensees in total, though in an inconsistent format and not over the same time periods. Some licensees provided estimates of their fixed costs of discharging the obligation mostly comprising staff costs. The variable costs capture brokerage fees, and most significantly, the net trading costs of the MMO. Table 1 below summarises the cost information, with ranges and estimates used to protect the identity of each licensee.

Table 1 – fixed and variable costs per licensee (£m)

	costs provided by licensees (£m)			
	2014	*2015*	*2016*	*H1 2017*
Fixed costs	~ 0.5	~ 0.5	~ 0.5	~ 0.5
Variable	0.2 – 0.7	~ 0.5	3.0 – 8.0	0.3 – 0.7

Source: licensees

2.8. As seen in the table, obligated parties reported that their variable costs of discharging their obligations increased over 2016. They broadly attributed this to the volatility observed over quarters three and four of 2016 and explained that this was as result of market making at the prescribed bid-offer spreads. When prices move significantly and rapidly, market makers often have their bids or offers aggressed and then pay a premium to reverse those positions once prices have moved in an unfavourable direction. We were also told that this effect can be most pronounced at the start of market making windows where the narrow bid-offer spreads make price discovery difficult and prices can move very quickly.

2.9. At the time of our original impact assessment, we estimated that the ongoing costs of complying with MMO would be around £1.6m per licensee per year. For the majority of years in Table 1, the actual costs faced by some licensees have

[5] Paradoxically rejected blocks are a feature of GB near term auctions, where orders for 'blocks' of hours can be rejected if the bidder would experience a loss relative to the resulting spot price of the auction.

been below this estimate. However, the costs reported by licensees during 2016 far exceeded our original estimates.

2.10. We also asked respondents to provide us with evidence on the benefits of the policy. Respondents found it difficult to quantify benefits but some stated that robust reference prices and certainty of availability had enabled them to better hedge their activities and robustly price their supply contracts and PPAs. One generator responded that they would not have entered the UK market without the MMO policy in place.

Fast market, volume cap and volatility

2.11. In the consultation we asked specifically for respondents' views on whether the fast market rule and volume cap have been effective in reducing risk for licensees. Obligated parties broadly said that the fast market rule and volume cap had been insufficient to prevent costs from escalating during market volatility. Other respondents raised concern over any loosening of the rules that could impact on certainty of availability.

2.12. Some obligated parties suggested that the 4% threshold for a fast market was too high, as it was rarely activated even during the significant market volatility in 2016. Some suggested spread limits that vary with volatility, some suggested an absolute rather than percentage threshold, and some did not believe that the threshold should be anchored to the first trade in a window.

2.13. We received less feedback on the volume cap, with some respondents suggesting that the 30MW net volume was too high. Some suggested the rule should be based on gross volume traded, including volume initiated, aggressed, bought and sold.

Policy changes suggested

2.14. We received a range of suggestions to alter the existing MMO to better meet its objectives or to reduce the costs on licensees. In general, independent suppliers and generators were in favour of including more products which would allow them to better hedge load shape.[6] Several respondents suggested changes to the obligation that may spread liquidity over the day, with longer or more frequent windows at wider bid-offer spreads.

2.15. Some respondents were in favour in allowing a greater level of flexibility in the licence condition but would want any such flexibility written into it. For example, several respondents were in favour of allowing spreads to change dependent on certain market conditions. Others were wary of allowing greater flexibility that allowed frequent suspension of the obligation.

External factors

[6] This refers to a supplier's ability to buy electricity products in advance of delivery that have a greater time granularity. For example, this could be buying electricity products that only cover the evening peak in electricity demand to cover for that short-lived increase in demand.

2.16. The most consistently raised point outside of the specific questions we asked in our consultation was around the criteria used for selecting those to discharge the MMO. Many of the large electricity market participants have (or are in the process of) restructuring their businesses to separate or integrate generation and supply arms. Some respondents also noted the CMA's findings on vertical integration not being a significant barrier to wholesale power market liquidity. Respondents felt that this may mean that the obligation is now falling disproportionately on the remaining obligated parties and that the criteria need to be revisited. There was also both support and opposition for a tendered market maker(s), with costs socialised across market participants.

2.17. In terms of other external policy factors respondents thought we should consider, cash-out reform and half-hourly settlement were most frequently mentioned. Some respondents believed these reforms would make hedging load shape more important in the future and increase the need for Secure and Promote to include more products.

Our assessment

2.18. Overall, we believe that the analysis presented in our previous consultation along with the responses to that consultation suggest that the MMO policy has likely met its aims and likely helped to support market liquidity. We feel that any significant changes at this point, including the removal of the policy, could jeopardise the support on which some market participants rely. As a result, we are not planning to make major changes to policy in the short-term, but we are planning to carry out further work on the S&P licence condition review in the medium- to long-term. We consider more time is needed to assess the policy in a changing market.

2.19. In the short term, however, we are concerned by the evidence presented to us that the rules we put in place to mitigate risks for licensees have not been sufficient to prevent escalating costs in times of volatility. Costs reported by licensees during 2016 far exceeded the ongoing costs that we estimated in our original impact assessment, with the Volume Cap and Fast Market Rules not acting to stop costs escalating rapidly during volatile periods.

2.20. We believe that this level of cost escalation warrants making some relatively small changes to the licence condition to alleviate this risk while preserving the vast majority of the benefits. We set out these proposals in detail in the following chapter and aim for them to be implemented as soon as possible so that they can mitigate any cost escalation from market volatility in the near future.

2.21. We also recognise the present landscape of changing business models, and the need to assess whether the current criteria for licensees are the most appropriate for the future. In the coming year we intend to consider who is best placed to discharge the MMO and revise our guidance as appropriate.

2.22. Some respondents suggested that we undertake a full ex post evaluation of the policy to fully determine whether its benefits justify the costs. At present, we do not feel we have sufficient evidence to do so but will return for a wider review of the policy once it has been in place for longer. This will allow us to take into account other aspects of the changing market. Such a review will consider whether liquidity support is still needed and whether the MMO approach is the best design to achieve our goals, and fully assess the potential options suggested in stakeholder feedback to our last consultation.

3. Proposed amendments to the licence condition

Overview

3.1. As explained in chapter two, we are concerned with the evidence of rising costs of the MMO associated with times of volatility. Broadly, we are told that these additional costs arise from the restriction of bid-offer spreads during times when prices are more volatile and price discovery is more difficult. Given this, we suggest that some widening of mandated bid-offer spreads would be the most appropriate way to mitigate costs in these circumstances. While we want to preserve the existing bid-offer spreads in most conditions, we believe that widening in some circumstances would be appropriate to allow licensees to manage their price volatility risk.

3.2. We propose allowing bid-offer spreads to widen in two scenarios:

- A **soft landing** period of ten minutes at the beginning of each market making window with wider bid-offer spreads
- A new **fast market rule** to widen bid-offer spreads in the market making windows when the price moves by ±1% from the first trade of the window

3.3. The wider bid-offer spreads for both amendments will be up to 1% across all Products. Below we set out our analysis of why have chosen these mechanisms for spreads to widen.

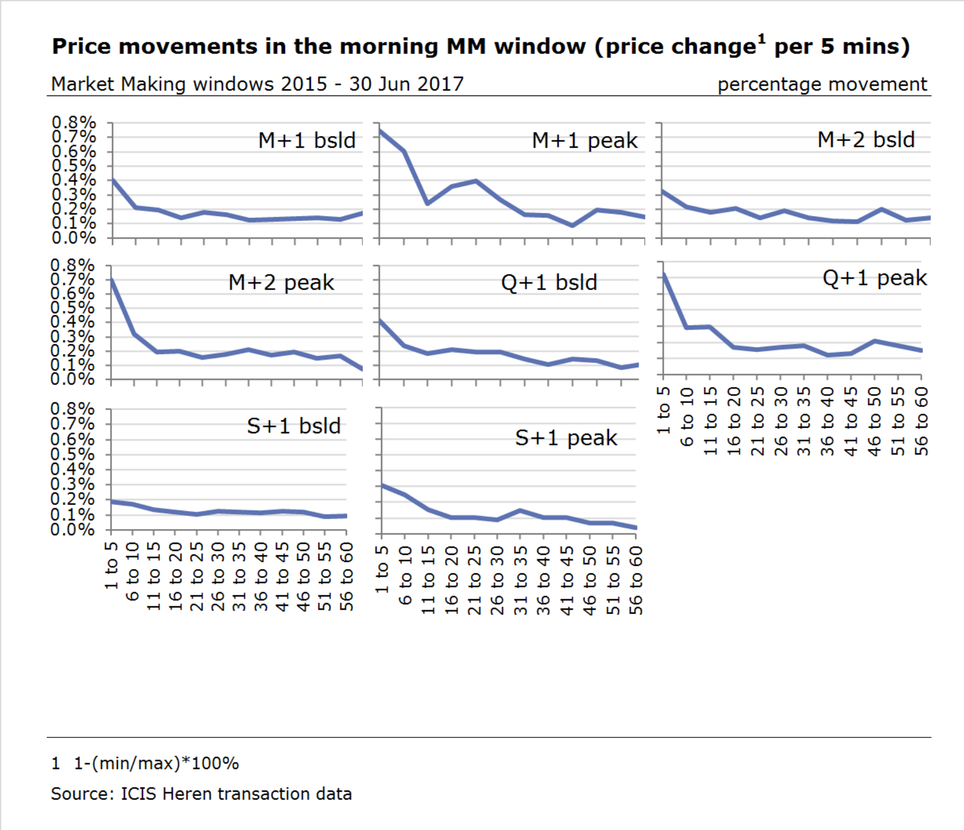
Analysis

Soft landing

3.4. Some market participants told us that prices often move significantly around the beginning of market making windows. We have been told that bids and offers are often wide outside the windows or even potentially entirely absent. This can make the process of price discovery at the start of market making windows harder for obligated parties. If market makers get sentiment wrong at the beginning of windows, and several trades occur with narrow spreads, market makers may face larger than expected variable costs, including net trading costs of the MMO.

3.5. Our own analysis of prices during market making windows shows that they do indeed tend to move most at the start of market making windows – see Figure 1. We calculated the average percentage difference between the highest and lowest priced trades in each five minutes of market marking windows over the period 1 Jan 2015 – 30 Jun 2017. We found that average price differences were particularly high in the first and second five minutes of market making windows, and that this effect is strongest for peak products in morning windows.

Figure 1 – Average price differences in each five minutes of morning market making windows



3.6. We believe that having wider bid-offer spreads during these first ten minutes of market making windows should facilitate a more natural process of price discovery. We still believe that our original market making spreads are a sensible aspiration and are facilitating robust prices in the market. However, we believe that this pattern of volatility over the window is an unnecessary feature of the obligation. Wider spreads at the beginning of windows could reduce the distortionary effects of the policy and help reduce avoidable costs for licensees.

3.7. We do not anticipate that widening spreads for this period should create any significant adverse effects for market participants and should still preserve certainty of availability and robust prices, reflecting a level of market risk associated with the window opening. However, we welcome feedback to this consultation from all or any potential unintended consequences.

Question 1: Do you agree with our analysis and proposal for a soft landing?

Question 2: Do you have any concerns about the success or unintended consequences of this proposal?

Fast market rule

3.8. Currently the Secure and Promote licence condition provides a mechanism for licensees to withdraw from posting bids and offers in the designated market making windows under certain circumstances. The 'fast market' rule applies if prices for a product increase or decrease by 4% compared to the first trade in the window.[7]

3.9. When designed, the fast market rule aimed to reduce the risk of making significant losses in periods of volatility. The rule was originally intended to be used sparingly and to apply 'no more than a couple of per cent of the time for the most volatile product.' We reported in our July consultation that the fast market rule was used 28 times in 2015 and 117 times in 2016. Feedback from licensees was that the fast-market threshold of 4% was being reached too infrequently and did not protect against costs increasing during volatility in 2016. The cost information provided by licensees tends to support this claim.

3.10. We have since concluded further analysis on the proportion of windows that would have incurred a fast market at various thresholds. This is summarised in Table 2 below.

Table 2 – Proportion of windows incurring fast markets at various thresholds

Proportion of windows where a fast market would be triggered, by fast market threshold, 2015 – 30 Jun 2017

	Month+1	*Month +2*	*Quarter +1*	*Season +1*	*Season +2*	*Season +3*	*Season + 4*
1% threshold	7.1%	5.1%	5.7%	2.2%	1.8%	1.3%	2.2%
2% threshold	2.8%	1.9%	2.1%	0.5%	0.2%	0.3%	0.3%
3% threshold	1.3%	0.9%	0.8%	0.2%	0.0%	0.0%	0.1%
4% threshold	0.7%	0.4%	0.3%	0.1%	0.0%	0.0%	0.1%

Source: Ofgem analysis of ICIS transaction data

3.11. Table 2 shows that at the current 4% threshold a fast market would only have been triggered in 0.7% of windows between the beginning of 2015 and July 2017. This is significantly below the 'couple of percent' of windows initially intended and supports some relaxation of the threshold.

3.12. However, we are also mindful that allowing a complete withdrawal from the window is a fairly extreme provision at a lower threshold. In response to our consultation, smaller suppliers stated that the certainty of availability can be particularly helpful during volatile markets. Bearing this in mind, we propose keeping the current 4% fast market threshold allowing licensees to withdraw from their obligations for the remaining duration of the window. However, to better allow obligated parties to manage their risk exposure we also propose having a lower 1% threshold at which bid-offer spreads would be allowed to widen. We believe that this solution should allow licensees to significantly reduce their costs

[7] Part 7 in schedule B of the Special condition AA (reproduced in Appendix 2 of this document) refers to the suspension of the obligation under the fast market rule, although this term is not used explicitly.

in future periods of volatility while still preserving many of the liquidity benefits for market participants.

Question 3: Do you agree with our analysis and proposal to allow bid-offer spreads to widen in response to a fast market?

Question 4: Do you have any concerns about the success or unintended consequences of this proposal?

Bid-offer spreads

3.13. Both our soft landing and fast market proposals detailed above are designed to protect licensees when dealing with periods of higher volatility while still leaving the majority of windows with the originally prescribed bid-offer spreads.

3.14. In choosing a level for spreads to which spreads would widen, we are mindful to reduce risk but do not want to allow spreads to widen to a level by which the prices posted would no longer be traded. We believe increasing the spreads for all Products to 1% will be sufficient to achieve this aim. This would mean that for the first ten minutes of each window and when a 1% fast market has been reached, the spread would be set at the levels in Table 3.

Table 3 – Proposed bid-offer spreads for fast markets and soft landing, with the current spreads in brackets

	Baseload	Peak
Month+1	1.0% (0.5%)	1.0% (0.7%)
Month+2	1.0% (0.5%)	1.0% (0.7%)
Quarter+1	1.0% (0.5%)	1.0% (0.7%)
Season+1	1.0% (0.5%)	1.0% (0.7%)
Season+2	1.0% (0.5%)	1.0% (0.7%)
Season+3	1.0% (0.6%)	1.0% (1%)
Season+4	1.0% (0.6%)	N/A

Question 5: Do you agree with the proposed increased spreads?

3.15. Our full proposed licence condition drafting to enact these changes can be found in Appendix 2. We welcome comments on the drafting of the proposals.

Question 6: Do you agree with the proposed wording of the modified licence condition?

4. Next steps

Replying to this consultation

We are consulting on our proposals for eight weeks and welcome your views. A list of the consultation questions contained in this document are in Appendix 1. Please respond as fully as you can and include evidence where possible. Please send your responses to the consultation questions by **7 February 2018.** We prefer to receive responses in an electronic format so that they can be easily added to our website.

Send responses to:

Kristian Marr/Matthew Gardner
Market Intelligence and Oversight
Energy Systems, Ofgem
9 Millbank
London SW1P 3GE
Email: wholesalemarketoperation@ofgem.gov.uk

Confidentiality

Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website (www.ofgem.gov.uk). Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their responses.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000.

Statutory consultation

Depending on the responses to this consultation, we may decide to proceed with our proposed modifications to Special Condition AA of the Generation Licence. In line with our normal procedures, in this event we will publish a Statutory Consultation on any changes before making our final decision.

Appendices

Index

Appendix 1 – Consultation questions

For all questions please include reasoning and evidence in your answers.

Question 1: Do you agree with our analysis and proposal for a soft landing?

Question 2: Do you have any concerns about the success or unintended consequences of this proposal

Question 3: Do you agree with our analysis and proposal to allow bid-offer spreads to widen in response to a fast market?

Question 4: Do you have any concerns about the success or unintended consequences of this proposal

Question 5: Do you agree with the proposed increased spreads

Question 6: Do you agree with the proposed wording of the modified licence condition

Appendix 2 – Proposed drafting of Special Licence Condition AA

Special Condition AA: Liquidity in the Wholesale Electricity Market

AA.1 Paragraphs AA.2 to AA.6 shall cease to have effect in this licence on such date as the Authority may specify in a direction given to the licensee or to all Relevant Licensees.

AA.2 The licensee shall with effect from such date or dates as the Authority may specify in a direction given to the Licensee:

(a) comply with the requirements in Schedule A to this condition;

(b) subject to paragraph AA.3, comply with the requirements in Schedule B to this condition; and

(c) report, in accordance with the requirements in Schedule C to this condition, to the Authority in respect of its compliance with Schedule A and (subject to paragraph AA.3) Schedule B and in respect of the other matters specified in Schedule C.

AA.3 If, at the time at which the Licence was modified to include this condition AA, the Authority gave notice to the licensee that this paragraph AA.3 shall apply in the Licence, a direction to comply with the requirements in Schedule B shall not be given without the consent of the licensee.

AA.4 The licensee shall be taken to have complied with AA.2 if it or any of its affiliates (whether or not a Relevant Licensee) has complied with the relevant obligations in AA.2.

AA.5 For the purposes of this condition the "**relevant objective**" is facilitating competition in the generation and supply of electricity, by promoting:

(a) the availability in the market of Products which enable persons that supply electricity to hedge their positions into the longer term;

(b) the availability of robust reference prices for Products for delivery in the longer term

with a view to the development of liquidity in the market.

AA.6 For the purposes of this condition:

"Product"	in paragraph AA.5(a) has the meaning given in Schedule A and in paragraph AA.5(b) has the meaning given in Schedule B;
"Relevant Licensee"	means the holder of a generation licence which includes this condition;
"market"	means the wholesale electricity market in Great Britain;

"Business Day"	means a Business Day as defined in the Balancing and Settlement Code.

LIQUIDITY LICENCE CONDITION
SCHEDULE A

1. The requirements in this Schedule apply with a view to the achievement of the relevant objective in paragraph AA.5(a) of this condition.

Request for Trading Agreement

2. The licensee must acknowledge receipt of a written request for a Trading Agreement (a **Request**) from an Eligible Supplier within 2 Business Days after receipt.

3. The licensee must send a written response to the Eligible Supplier within 20 Business Days of receipt of a Request. Where a Request is incomplete, the licensee must specify what information is required for the purposes of completing the Request. The number of Business Days taken by the Eligible Supplier to complete an incomplete Request will not count towards the 20 Business Day limit.

4. The written response must include:

    i. an offer to enter into a Trading Agreement which shall include all the terms and conditions of such agreement; or

    ii. an explanation of the reasons why the licensee has determined that it is unable to offer a Trading Agreement to the Eligible Supplier.

5. The licensee shall take all reasonable steps to ensure that any subsequent negotiations on the Trading Agreement with the Eligible Supplier proceed in a timely manner. Where the licensee and the Eligible Supplier fail to reach an agreement within 40 Business Days from the date of the licensee's written response, the licensee shall, within 5 Business Days after that, write to the Eligible Supplier summarising any unresolved or disputed matters and offering a meeting within 20 Business Days from the date of writing.

6. The licensee must continue to negotiate with the Eligible Supplier until the Eligible Supplier and the licensee agree that negotiations should no longer continue.

7. The licensee shall retain all information, data, correspondence and the Credit Transparency Form with regards to any Request for a Trading Agreement for three years from the date of the Request for a Trading Agreement.

Credit terms and Collateral arrangements

8. The licensee’s offer under paragraph 4(i) must include credit terms and collateral arrangements that are consistent with paragraph 9.

9. The credit terms and collateral arrangements offered by the licensee must be a reasonable reflection of the risks of trading with the Eligible Supplier. For this purpose, the licensee must :

    i. assess the credit worthiness of the Eligible Supplier by reference to a range of relevant information, including information submitted by the Eligible Supplier;
    ii. follow an established process for assessing credit worthiness;

iii. consider, and where appropriate, discuss a range of credit options with the Eligible Supplier; and
iv. ensure that the credit terms and collateral arrangements offered reflect the outcome of the assessment, consideration and discussion under paragraphs i. to iii.

10. The licensee must complete and submit to the Eligible Supplier with its offer under paragraph 4(i) a Credit Transparency Form setting out the basis for its credit decision.

Named Contact

11. The licensee shall provide on its website:

i. a named contact or contacts for the purposes of making a Request for a Trading Agreement; and

ii. a list or description of all the information required from an Eligible Supplier to enable the licensee to make an offer under paragraph 4(i).

Request to trade in Products

12. Subject to paragraph 15, where a Trading Agreement is in force between a licensee and an Eligible Supplier, the licensee must provide a quote in response to a qualifying request to trade:

a. received on a Business Day before 2.00 pm, within 3 hours after receipt;

b. received on a Business Day after 2.00 pm, or on a day which is not a Business Day, by 11.00am on the next Business Day.

A qualifying request to trade is a request from an Eligible Supplier to buy or sell any Product in a volume of 0.5 MW or any integral multiple thereof not exceeding 10 MW.

13. The licensee's quote shall stipulate the period within which it may be accepted, which shall be a reasonable period based on the licensee's view of prevailing market conditions.

14. If the Eligible Supplier accepts the quote within the period stipulated, the licensee shall enter into a transaction with the Eligible Supplier under the Trading Agreement on the basis of the accepted quote.

15. If at any time the volume of the transactions in respect of Products (in aggregate, and counting transactions both to buy and to sell) entered into in a Trading Year, between (i) the licensee and its affiliates and (ii) an Eligible Supplier and its affiliates, exceeds 0.5 TWh, the licensee shall not be required to enter into further transactions in that Trading Year with that Eligible Supplier.

Pricing

16. The licensee's quote must be as good as the best price that is available to the licensee in the market for the relevant Product at the relevant time; provided that the quote may include (but where included, must itemise separately):

a. an objectively justifiable risk premium to reflect the risk to the licensee of trading in volumes smaller than those available to the licensee in the market; and
b. at cost any wholesale market trading fees incurred by the licensee in trading the relevant Product.

The licensee may not include any administrative charge or any other internal costs incurred as a result of trading with the Eligible Supplier.

17. For the purposes of this Schedule A:
(1) "**Credit Transparency Form**" means a form prepared (and as may from time to time be amended) and published by the Authority.
(2) The holder of an electricity supply licence is an "**Eligible Supplier**" where the holder is included in the prevailing list of eligible suppliers published by the Authority for the purposes of this condition.
(3) "**Products**" means the products in the table below (where product means a traded electricity product for delivery in Great Britain, including a product settled financially), and "**Product**" means any of such Products:

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

In the table above, Peak, Baseload, Week, Month, Quarter and Season have their generally accepted meanings as applicable in the market at the relevant time.
(4) "**Trading Agreement**" means a master agreement for trading electricity.
(5) "**Trading Year**" in relation to an Eligible Supplier means a period of 12 months beginning on the date with effect from which such Eligible Supplier is included in the list referred to in paragraph 17(2).

LIQUIDITY LICENCE CONDITION
SCHEDULE B

1. The requirements in this Schedule apply with a view to the achievement of the relevant objective in paragraph AA.5(b) of this condition.

Posting prices

2. Subject to paragraphs ~~7~~8 and ~~10~~11, the licensee shall simultaneously offer to buy and sell each of the Products, by posting on a qualifying platform in accordance with paragraph 5, at times which comply with the requirements of paragraph 6, bid and offer prices which comply with the applicable requirements of paragraph ~~8~~9, for volumes of such Product which comply with the requirements of paragraph ~~9~~10.

3. The licensee's bids and offers for a Product at any particular time must be posted on the same qualifying platform; but the licensee may post bids and offers for different Products, or (subject to paragraph 6) for the same Product at different times, on different qualifying platforms.

Nominee to discharge requirements

4. (a) Subject to paragraph 4(b), the licensee may nominate a Nominee in relation to any period (comprising a whole number of months) and any Product(s), in which case the licensee shall be treated as satisfying such requirements if the requirements are satisfied by the Nominee but not otherwise.

   (b) The licensee may not nominate a person as Nominee in relation to a month if that person is also nominated as Nominee in relation to that month:

   (i) by two or more other Relevant Licensees, who are not affiliates of each other or the licensee or

   (ii) if the Nominee is itself a Relevant Licensee or an affiliate of a Relevant Licensee, by one or more other Relevant Licensees who are not affiliates of the Nominee or the licensee.

Qualifying platforms

5. In relation to the licensee, a qualifying platform is a trading platform in relation to which the following conditions are satisfied at all relevant times:

   (a) one or more of the Products may be bought and sold on the platform;

   (b) the platform must be operationally independent from the licensee;

   (c) the licensee (or its Nominee if nominated) must at all times have arrangements in place to trade the relevant Product(s) on the platform with at least 5 other persons who are not affiliates of the licensee (nor of the Nominee, if nominated);

   (d) the licensee must have a reasonable expectation that the relevant Product(s) will be traded on the platform; and

   (e) the operator of the platform must provide trading data relating to the licensee (or Nominee) to the Authority when requested for the purpose of monitoring the licensee's compliance with this Schedule B.

Availability of prices

6. (a) Bids and offers for each Product must be posted on a qualifying platform at all times (subject to paragraph (~~b~~c)) in the periods of 60 minutes (each a "trading window") starting respectively at 10.30 hours and 15.30 hours every Business Day, with the exception of the trading window which starts at 15.30 hours of the preceding business day to 25 December and 1 January.

(b) Posted bids and offers for each Product posted on a qualifying platform may have spreads up to the values specified in Table 3 under Paragraph 9 for the first 10 minutes of each "trading window" specified under Paragraph 6a. Once the 10 minutes has elapsed at 10.40 hours and 15.40 hours every Business Day (exceptions noted under Paragraph 6a), posted bids and offers for each Product posted on a qualifying platform may have spreads up to the values specified in Table 2 under Paragraph 9 for the remainder of each "trading window".

~~(b)~~(c) Where a bid or offer posted by the licensee for a particular Product is accepted, the licensee must post a new bid and offer for the Product within five minutes after the acceptance of the first bid or offer.

Loosening of obligation

7. (a) If, at any time in a trading window, a Product has been traded (on any qualifying platform) at a price which is more than 1.01 or less than 0.99 times the price at which the Product was first so traded within that trading window, the licensee may decide to post bids and offers with wider spreads for that Product (as required by this Schedule B) for the remainder of that trading window within the limits set out under Table 3 of Paragraph 9. Such trades may have been made by the same or different persons and on the same or different qualifying platforms.

(b) Where the licensee decides to widen the posted bids and offers for a Product (as required by this Schedule B) in a trading window under paragraph 7(a), it must:

(i) record such decision at the time it is taken, together with details of the trades referred to in that paragraph; and

(ii) report the time and date at which it widened the posted bids and offers for such Product (as required by this Schedule B) in its quarterly report to the Authority.

(c) The licensee's duty to post bids and offers for the relevant Product (as required by this Schedule B) resumes at the next trading window.

Suspension of obligation

~~7~~8. (a) If, at any time in a trading window, a Product has been traded (on any qualifying platform) at a price which is more than 1.04 or less than 0.96 times the price at which the Product was first so traded within that trading window, the licensee may decide to cease posting bids and offers for that Product (as required by this Schedule B) for the remainder of that trading window. Such trades may have been made by the same or different persons and on the same or different qualifying platforms.

(b) Where the licensee decides to cease posting bids and offers for a Product (as required by this Schedule B) in a trading window under paragraph ~~7~~8(a), it must:

(i) record such decision at the time it is taken, together with details of the trades referred to in that paragraph; and

(ii) report the time and date at which it ceased to post bids and offers for such Product (as required by this Schedule B) in its quarterly report to the Authority.

(c) The licensee's duty to post bids and offers for the relevant Product (as required by this Schedule B) resumes at the next trading window.

Limits on difference between bid and offer prices

~~8~~9. The difference between the bid and offer prices at any time for each Product, expressed as a percentage of the bid price, may not exceed

(i) for the first three months from the date specified in the Authority's direction under paragraph AA.2(b) of this condition, the percentage in Table 1 below; ~~and~~

(ii) thereafter, the percentage in Table 2 below;

(iii) the percentages in Table 3 for the first 10 minutes of each "trading window" specified under Paragraph 6a. Once the 10 minutes has elapsed at 10.40 hours and 15.40 hours every Business Day (exceptions noted under Paragraph 6a), posted bids and offers for each Product posted on a qualifying platform may have spreads up to the values specified in Table 2 below for the remainder of each "trading window".

(iv) the percentages in Table 3 in the event that a Product has been traded at a price which is more than 1.01 or less than 0.99 times the price at which the Product was first so traded within that trading window, as described under paragraph 7.

Table 1

	Baseload	Peak
Month+1	0.7%	0.9%
Month+2	0.7%	0.9%
Quarter+1	0.7%	0.9%
Season+1	0.7%	0.9%
Season+2	0.7%	0.9%
Season+3	0.8%	1.2%
Season+4	0.8%	N/A

Table 2

	Baseload	Peak
Month+1	0.5%	0.7%
Month+2	0.5%	0.7%
Quarter+1	0.5%	0.7%
Season+1	0.5%	0.7%
Season+2	0.5%	0.7%
Season+3	0.6%	1%

Season+4	0.6%	N/A

Table 3

	Baseload	Peak
Month+1	1.0%	1.0%
Month+2	1.0%	1.0%
Quarter+1	1.0%	1.0%
Season+1	1.0%	1.0%
Season+2	1.0%	1.0%
Season+3	1.0%	1.0%
Season+4	1.0%	N/A

Trade volumes

~~9~~10. The volumes of each Product for which bid and offer prices must be posted are:

(a) subject to paragraph (b), 5MW and 10MW;

(b) if the licensee has nominated as Nominee a person who or whose affiliate is itself a Relevant Licensee or is appointed as Nominee by another Relevant Licensee, 5MW, 10MW, 15MW and 20MW.

Volume Cap

~~10~~11. (a) If at any time in a trading window the difference between the licensee's traded bid volume and traded offer volume in respect of a Product equals or exceeds 30MW, the licensee may decide to cease posting bids and offers for that Product (as required by this Schedule B) for the remainder of that trading window.

(b) For the purposes of paragraph (a):

(i) the traded bid volume and traded offer volume in a trading window are the total volumes of a Product for which the licensee's offers respectively to buy and to sell, on any one or more qualifying platforms, have been accepted in the trading window;

(ii) where the volume for which an offer to buy or sell is accepted exceeds the maximum required volume under paragraph ~~9~~10, the volume in excess of such maximum will not be counted towards the total traded bid volume or traded offer volume.

European Financial Regulation

~~11~~12. Where the licensee considers that any amendment or replacement of MiFID or EMIR may materially and adversely affect the ability of the licensee to comply with this Schedule B, the licensee may submit to the Authority a request (which for the avoidance of doubt shall not bind the Authority) to undertake a review of the provisions of Schedule B.

~~12~~13. For the purposes of this Schedule B:

"EMIR" means Regulation 648/2012/EU on OTC derivatives, central counterparties and trade repositories.

"MiFID" means the Markets in Financial Instruments Directive 2004/39/EC.

"**Products**" means the products in the table below (where product means a traded electricity product for delivery in Great Britain, including a product settled financially), and "**Product**" means any of such 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

In the table above, Peak, Baseload, Week, Month, Quarter and Season have their generally accepted meanings as applicable in the market at the relevant time.
"Nominee" means a person, other than the licensee or an affiliate of the licensee, who is nominated by the licensee to discharge the requirements of Schedule B.

LIQUIDITY LICENCE CONDITION

SCHEDULE C

1. The licensee must submit a report ("**the quarterly report**") to the Authority in the format directed by the Authority, in respect of each quarter (the "**Quarter**") commencing 1 April, 1 July, 1 October and 1 January respectively, containing the Information set out in the Table below no later than 30 days after the end of that Quarter.

2. In the columns entitled Schedule A and Schedule B in the Table, any terms shall have the meanings given in and are to be interpreted in accordance with Schedules A and B respectively.

3. The licensee shall keep, for at least 3 years from the date of the submission of each quarterly report, the Information.

4. The licensee must also provide any Information and the Credit Transparency Forms required by the Authority within five Business Days upon receipt of a request.

5. For the purpose of this Schedule C:

   "**Day Ahead Auction**" means an auction held on the day before physical delivery of wholesale products.
   "**Information**" means (a) the information specified by the Authority in the Table annexed to this Schedule, and (b) for the purposes of paragraph 3 and 4, any documents, estimates, records, correspondence with an Eligible Supplier and trade data of any kind used to compile a quarterly report under paragraph 1 of this Schedule.

Schedule A	Schedule B
Information on Trading Agreements with Eligible Suppliers for each Quarter: • List of names of Eligible Suppliers: 1. with whom a Trading Agreement has been signed; 2. with whom negotiations are under way; and 3. who have withdrawn from negotiations • List of names of Eligible Suppliers with whom the licensee has been unable to offer a Trading Agreement, and the reasons for the rejection. **Information on trading activities with Eligible Suppliers for the Quarter:** 1. the names of Eligible Suppliers with whom the licensee has traded; 2. total aggregate volume of each Product bought and sold; and 3. total aggregate number of trades in each Product **The quarterly report must include a statement, approved by a Director of the licensee, either:** 1. confirming that the licensee has complied with all the requirements in Schedule A; or 2. if the licensee has not complied, giving details of such failure to comply. The statement shall include: • a link to where contact details and the list of information required from Eligible Suppliers is hosted on the licensee's website; and • a statement that the information is up to date.	**Information on trading activities on qualifyin platforms pursuant to Schedule B for each Qu** 1. gross volume traded in each Product, for e month in the quarter; and 2. the total number of trades in each Product month in the quarter. **The quarterly report must include a statemen approved by a Director of the licensee, in res the Quarter:** 1. confirming that the licensee complied with requirements of Schedule B; or 2. if the licensee has not complied, giving det such failure to comply. **The quarterly report must include** the times, c an explanation with supporting evidence of the circumstances where a licensee decided to cease p bid an offers for a Product in a trading window: • under paragraph 7 of Schedule B; or • under paragraph 10 of Schedule B. **The quarterly report must include, for each P** • the names of the qualifying platform(s) the has used to comply with Schedule B; • the name of the licensee's Nominee (if use • where paragraph 4(b) of Schedule B applie total number of persons (as referred to in t paragraph) with whom the Nominee has arrangements to trade on the relevant plat

Appendix 3 - Glossary

Baseload product
A product which provides for the delivery of a flat rate of electricity in each hourly period over the period of the contract.

Bid-offer spread
The bid-offer spread shows the difference between the price quoted for an immediate sale (offer) and an immediate purchase (bid) of the same product. It is often used as a measure of liquidity.

Broker
A broker handles and intermediates between orders to buy and sell. For this service, a commission is charged which, depending upon the broker and the size of the transaction, may or may not be negotiated.

Churn rate
Churn is typically measured as the volume traded as a multiple of the underlying consumption or production level of a commodity.

Clearing
The process by which a central organisation acts as an intermediary and assumes the role of a buyer and seller for transactions in order to reconcile orders between transacting parties.

Collateral
A borrower will pledge collateral (securities, cash etc.) in order to demonstrate their ability to meet their obligations to repay loans. The collateral serves as protection for a lender against a borrower's risk of default.

Day-ahead market
A form of near-term market where products are traded for delivery the following day.

Exchange
A type of platform on which power products are sold. Typically an exchange would allow qualifying members to trade anonymously with other parties and the risks between parties would be managed by a clearing service.

Financial Product
A contract that is settled financially at maturity rather than by the delivery of a physical commodity.

Forward Curve
A series of sequential time segments within which it is possible to trade a particular commodity and for which prices are available.

Forward trading
The trading of commodities to be delivered at a future date. Forward products may be physically or financially settled at delivery.

Hedging
Transactions which fix the future price of a good or service, and thereby remove exposure to the daily (or spot) price of a good or service. This enables those purchasing a good or service to reduce the risk of short-term price movements.

Imbalance
The difference between a party’s contracted position and metered position measured on a half-hourly basis.

Intra-day trading
Refers to the market in which products traded are on the same day as delivery.

Liquidity
Liquidity is the ability to quickly buy and sell a commodity without a significant change in its price and without incurring significant transaction costs.

Market Maker
A firm which is regularly prepared to buy and sell in a commodities or financial market. Market makers post two-sided (bid and ask) prices on a regular basis, encouraging greater liquidity.

Near-term market
The market in which the products are traded close to delivery (for example, on the day of delivery or day-ahead of delivery.

Off-peak product
A product which provides for the delivery of a flat rate of electricity for the period of the day when demand is typically lowest for the duration of the contract.

Over the Counter (OTC)
Trading of financial instruments, including commodities, that takes place directly between counterparties. This is in contrast to exchange-based trading where the exchange acts as a counterparty to all trades.

Peak product
A product which provides for the delivery of a flat rate of electricity for the period of the day when demand is typically highest for the duration of the contract.

Physical settlement
A contract that, at maturity, results in an exchange of the contracted good for its contracted value.

Power purchase agreement
A contract between an electricity generator and a purchaser that defines the terms of the agreement for the sale of electricity between the two parties.

Product
The type of contract available. Examples include day-ahead, weekly, weekend, block seasonal, year, etc. Standard products are those that are widely traded on well-established terms, so exchanges generally deal in standard products.

Reference price
A price for a product which is considered reflective of the product’s ‘true’ market value.

Spot market
Refers to the market in which products traded are delivered at (or close to) delivery.

Vertical Integration
Where one corporate group owns two or more parts of the energy supply chain. For example, where the same group features both generation and supply businesses.

Window
Refers to one of the two one-hour windows starting at 10.30 am and 2.30 pm on business days when the market making obligation applies.

Appendix 4 - Feedback on this consultation

We want to hear from anyone interested in this document. Send your response to the person or team named at the top of the front page.

We've asked for your feedback in each of the questions throughout it. Please respond to each one as fully as you can.

Unless you mark your response confidential, we'll publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send your comments to stakeholders@ofgem.gov.uk