Secure and Promote

Ofgem Workshop
2 May 2017
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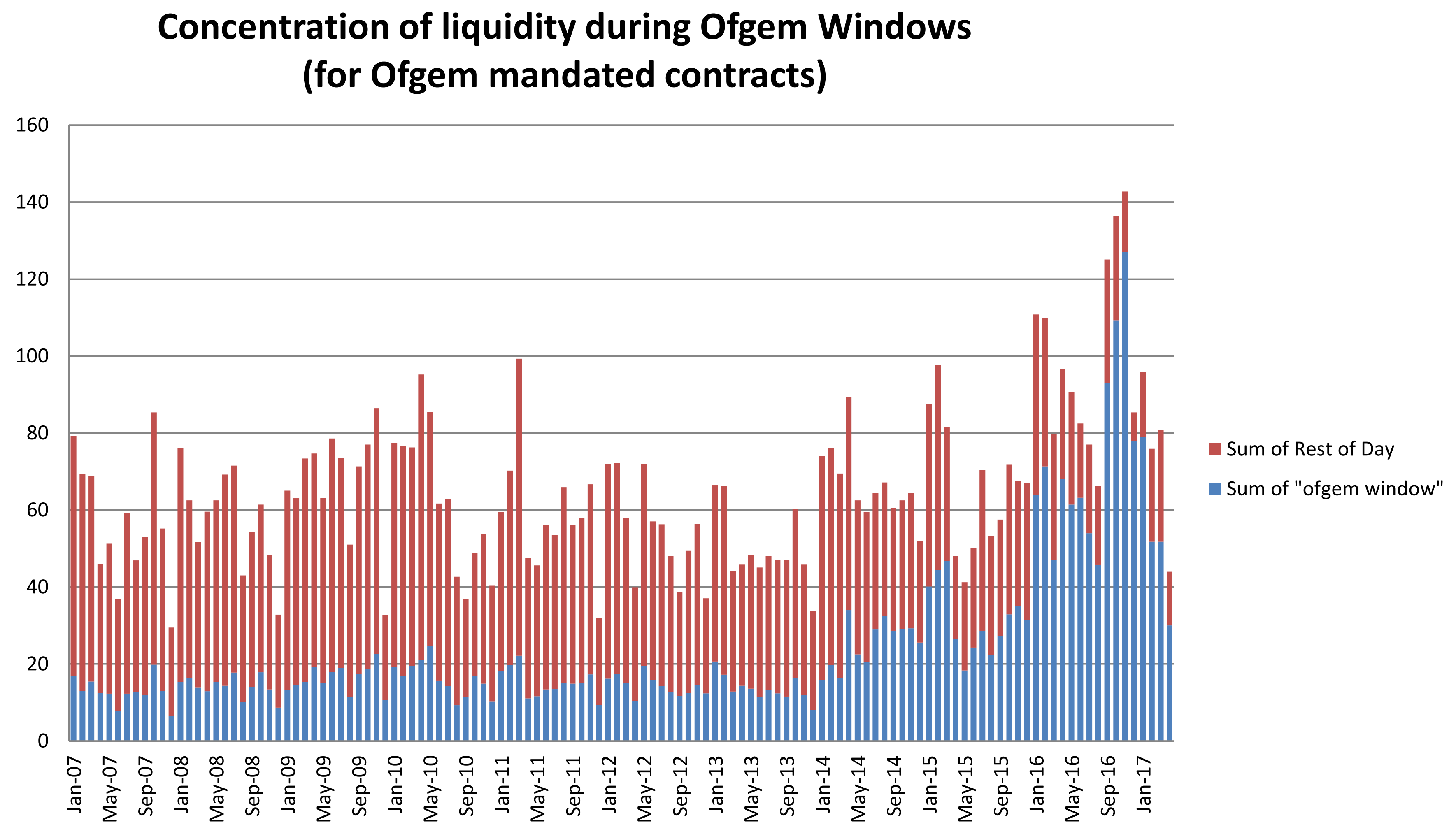
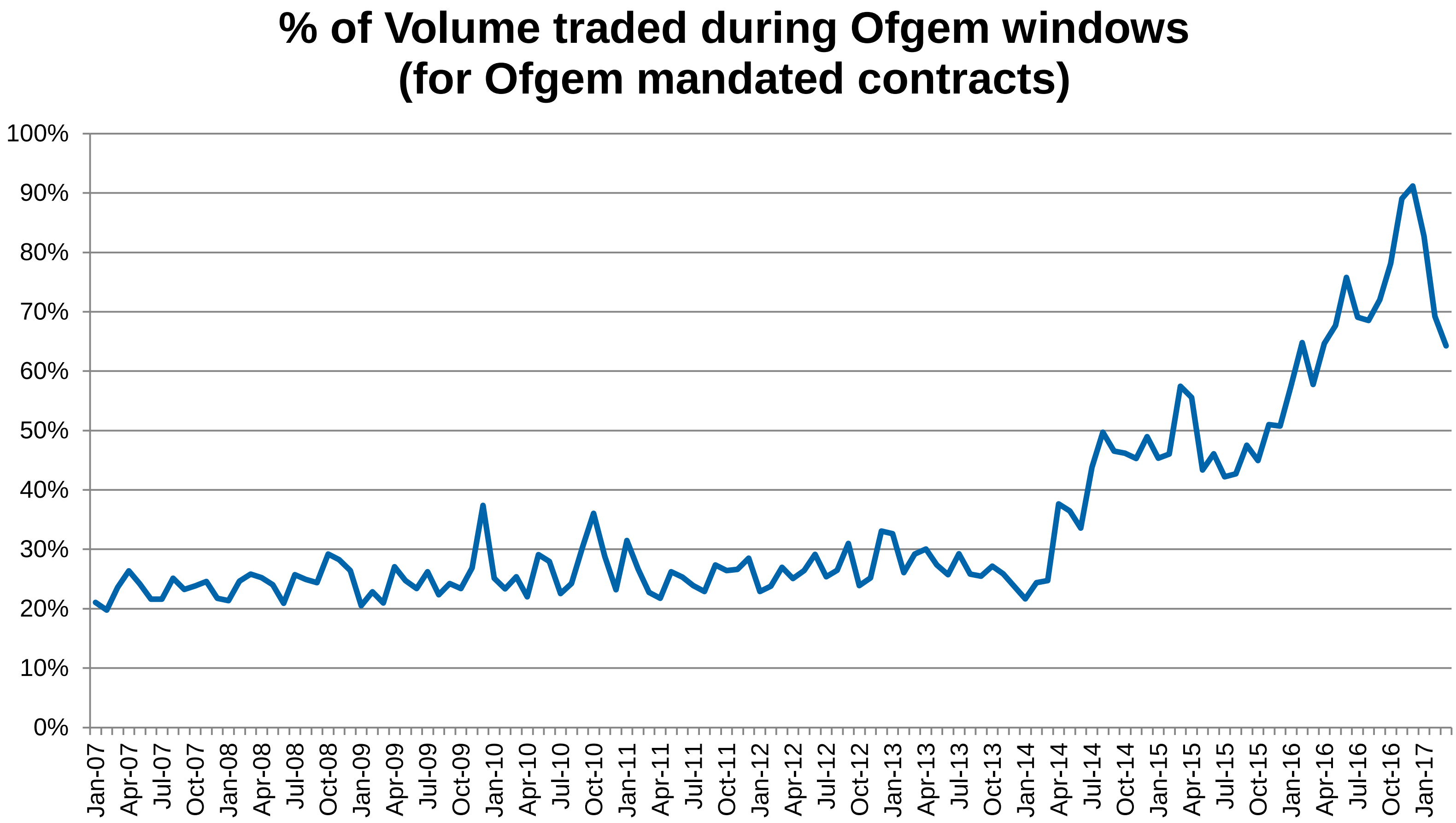
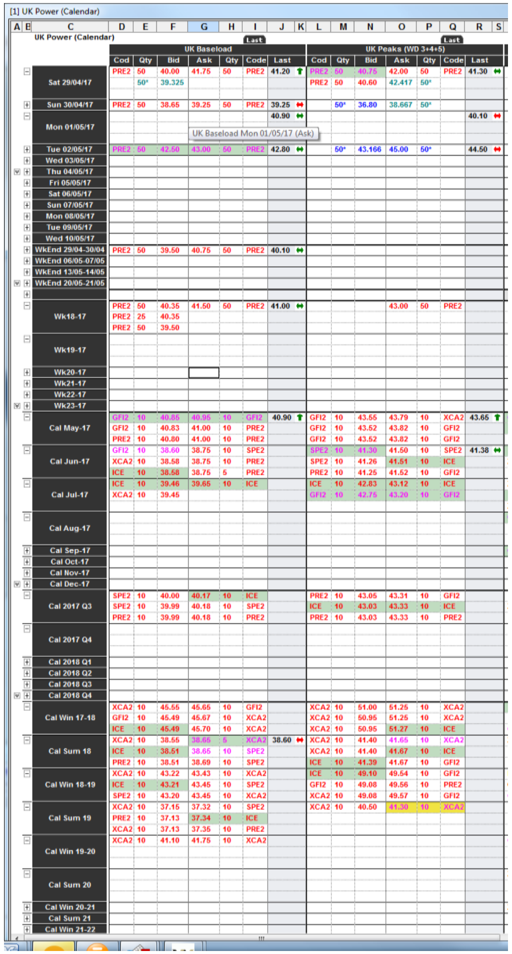
No clear trend in total liquidity, but…



…liquidity increasingly concentrated in windows



The morning window: before and during



Has the MM obligation succeeded?

> No clear increase in total liquidity
> Are volumes in windows churn between obligated parties or “new” volume?
> Absence of liquidity outside of windows
> Reference prices are provided by auction outside the obligation
> Futures contract has struggled to get off the ground
> Absence of entry of new traders and new risk capital
> Traders less willing/able to make markets “naturally”
> Significant cost of compliance (£3-4m per party)

The future of the MM obligation

> Remove
  - It hasn't worked
  - Significant retail entry anyway
  - Questionable logic for identifying obligated parties

> Relax
  - Wider windows facilitate new entrants and capital
  - Reduced compliance threshold would allow traders to focus on trading rather than compliance
  - Reduced enforcement overhead

Experience with Supplier Market Access

- Process
  - Has translated into a reasonable number of new agreements
  - Deadlines are challenging: RWEST information requests regarding credit aren't covered by "stop the clock" provisions
  - Ofgem's list of eligible suppliers is subject to change and overwritten, so status of supplier at different points in time is not clear
- Business impact
  - Significant overhead to maintain facility and deal with credit issues
  - Traded volumes for SMA products are small and over 70% of months show no volume (this is not the case for non-SMA/bespoke products)
- Market impact
  - Eligible suppliers can conclude agreements with non-obligated parties, if credit terms offered are attractive
  - Trade volumes would suggest that most SMA product transactions take place outside the obligation