

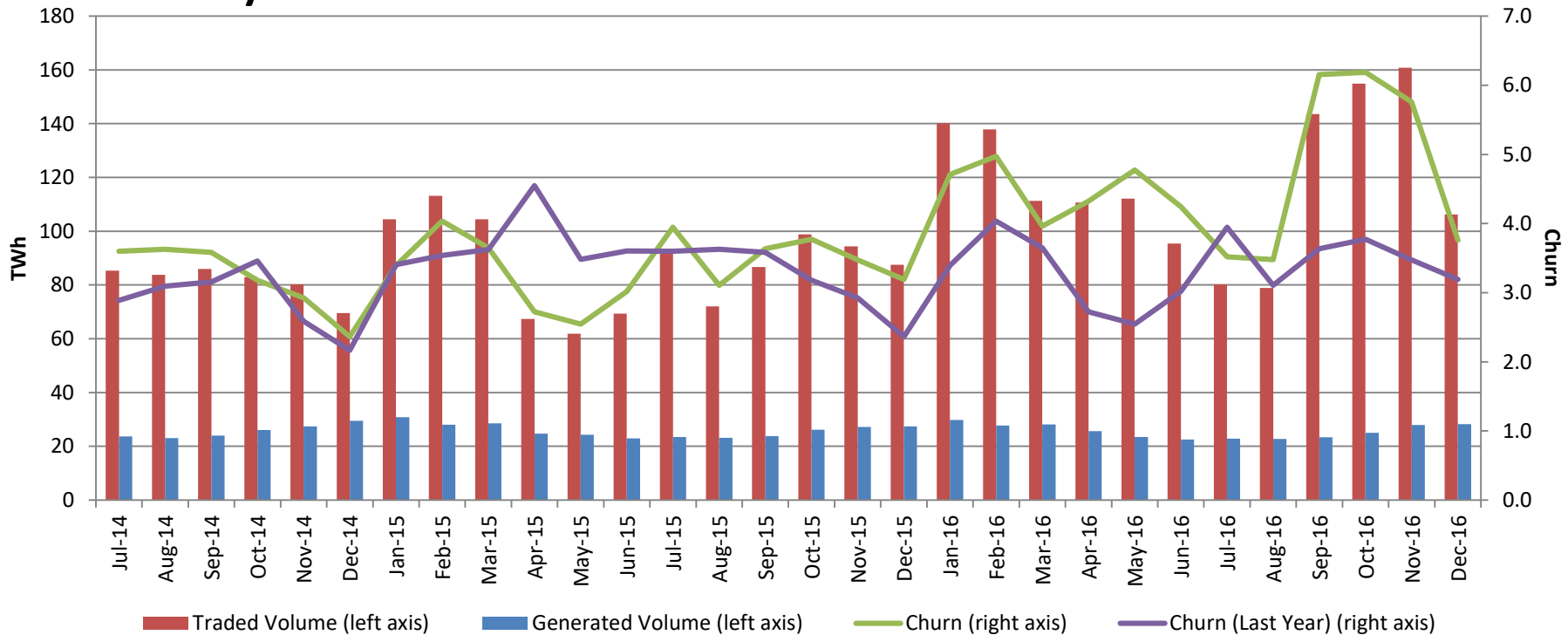
**Secure and Promote stakeholder
workshop
2nd May, 2017**

ofgem

9.30 am	Introduction – Cathryn Scott
9.35/40 am	Opening presentation – Yasmin Valji
9.55 am	Speakers – Paul Dawson (RWE), James Lythgoe (Bristol Energy)
10.15 am	Comments/discussion from the floor
10.25 am	Break out discussion
11.00 am	Feedback/open questions and comments
12.00 pm	Summary of the session and next steps

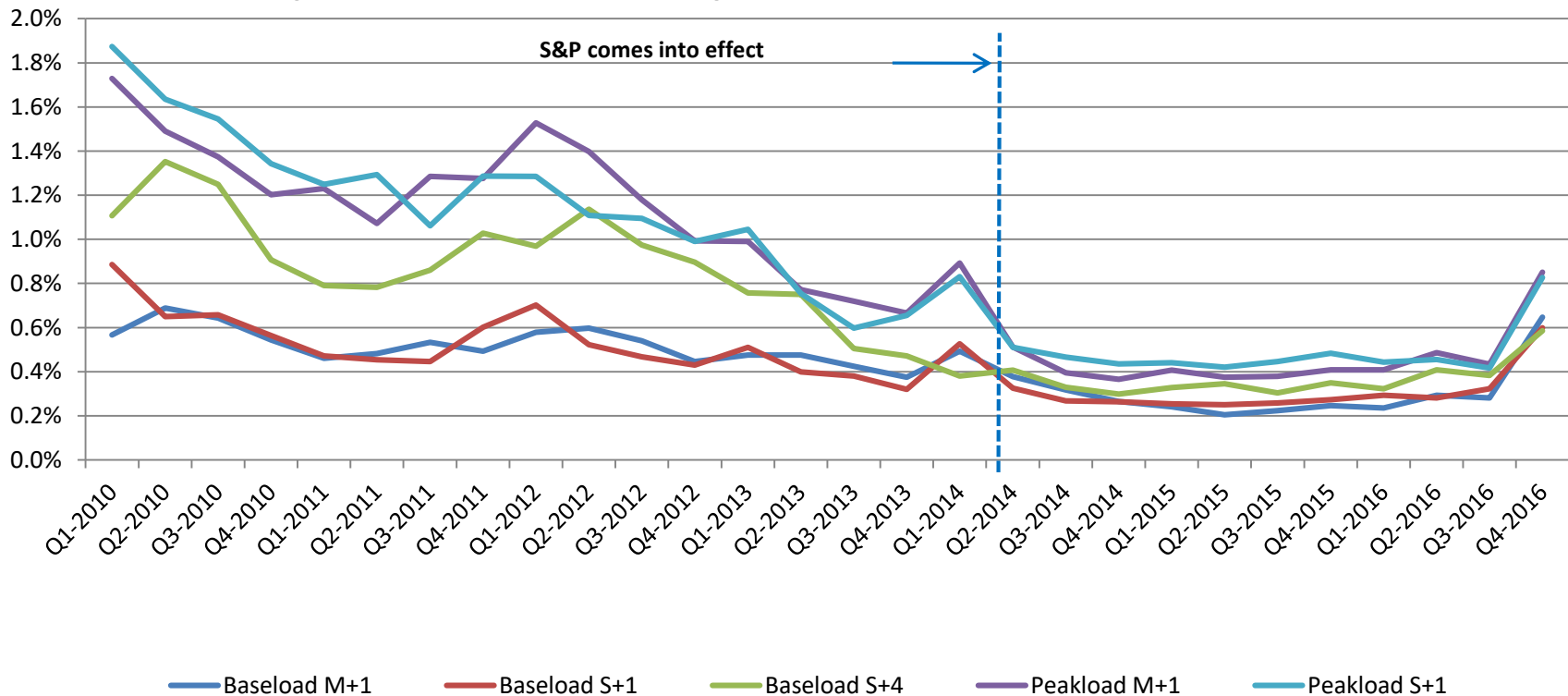
- Churn in the GB power market has generally been higher year on year since the start of the policy.
- Clear correlation between market volatility and churn – Q4 2016 churn exceeded 6, not seen since early 2002.

Monthly churn



- Bid-offer spreads at market close narrowed, following a downward trend since S&P, then a bottoming out – but conflicting anecdotal evidence.
- Spreads have increased in the final quarter of 2016, in some cases over product-specific mandated spreads under S&P.

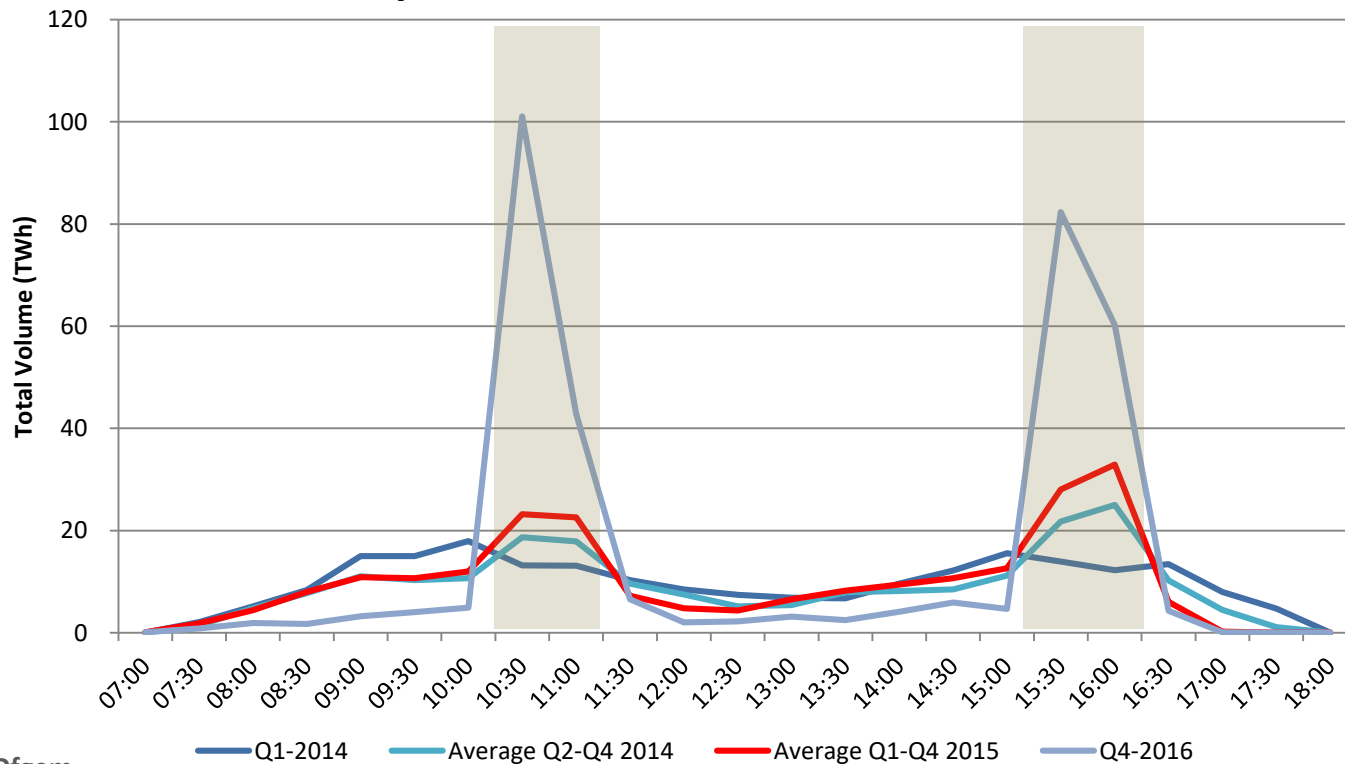
Bid-offer spread, selected S&P products



Sources: Dukes, ICIS Energy, Epex Spot, N2EX, ICE

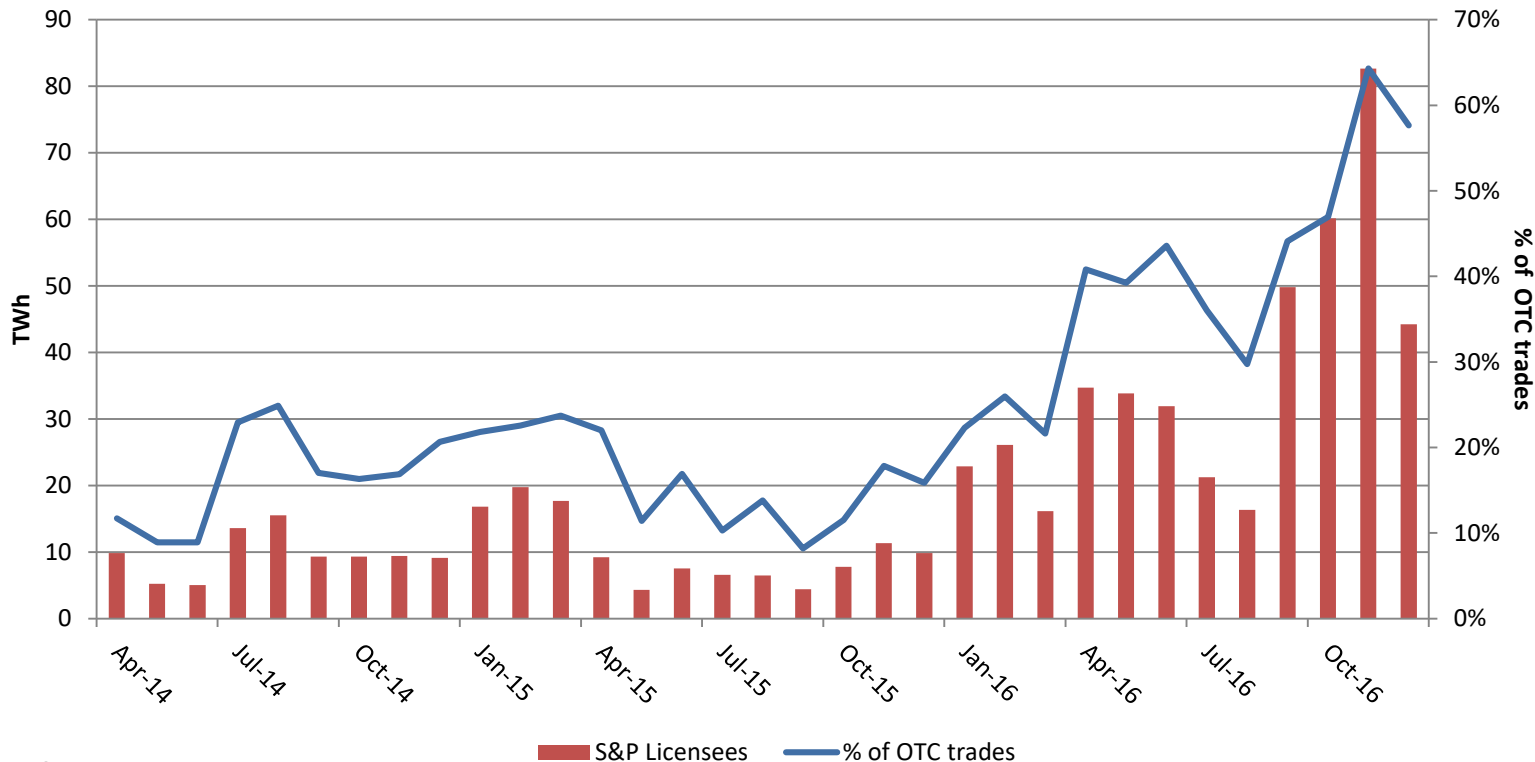
- Trading volumes have risen overall, in Q4 2016 volumes were concentrated into the windows
- Volumes traded between the two windows not substantially different, drop-off before the morning window and after the afternoon close
- Mixed opinions on the impact of the windows on opportunities to trade

OTC forward power trades

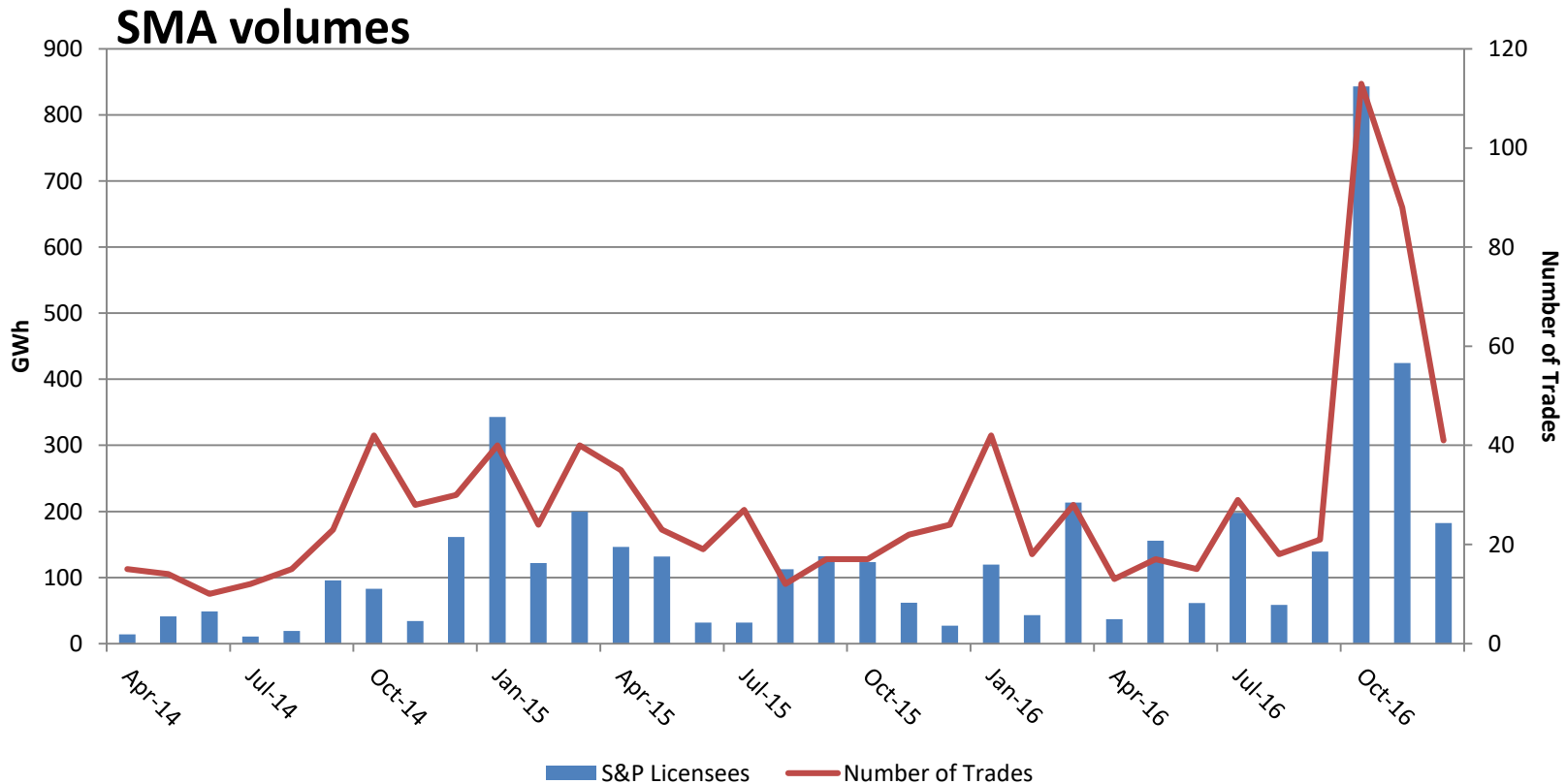


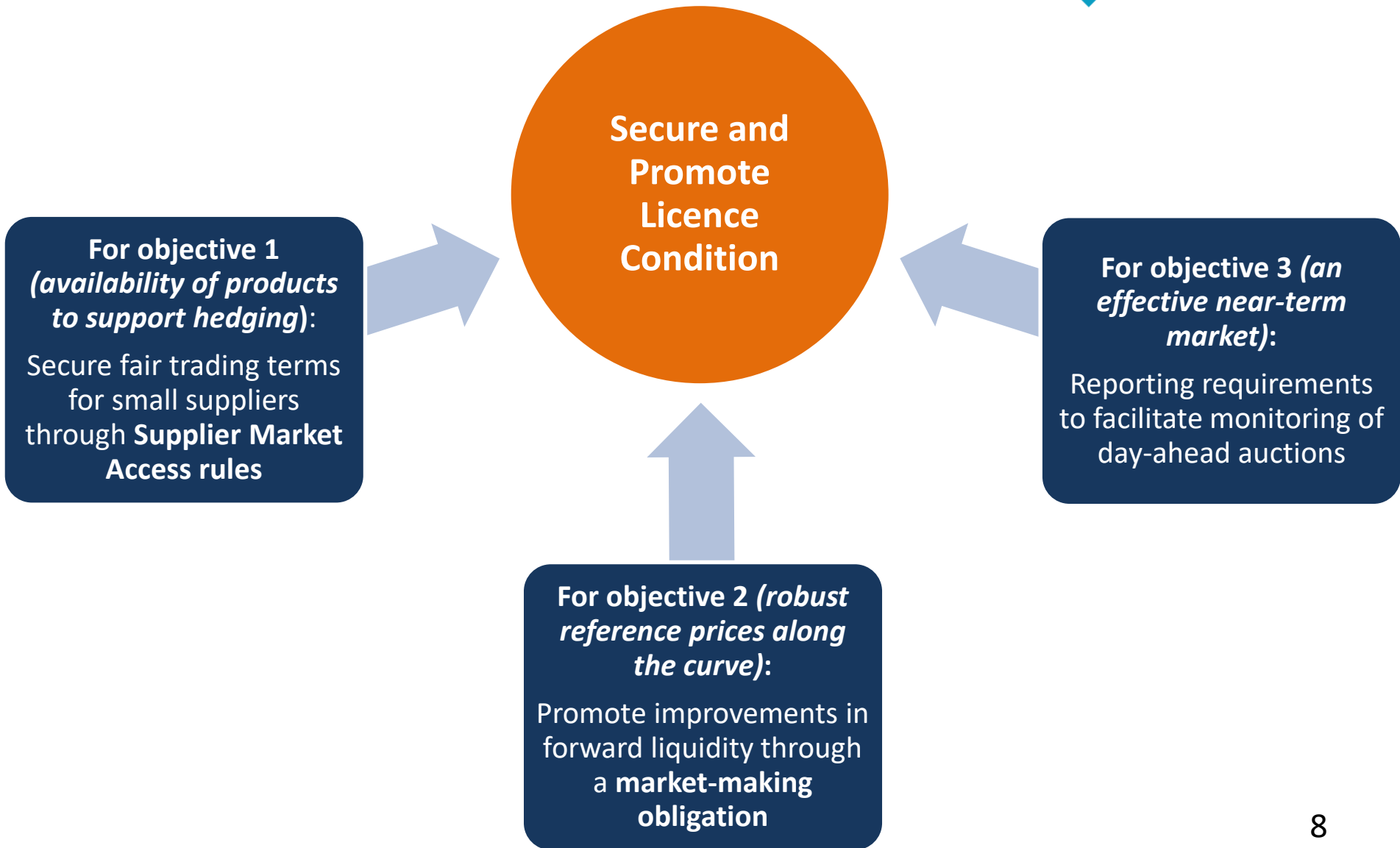
- Market making volumes – seasonal and strongly correlated with OTC trading
- Increasing trend since 2016 and a significant rise in volumes traded by market makers in the last months of Q4 2016.
- Market making trading remains focused in baseload products (S+1, S+2) but the ratio of peak to baseload products is following an upward trend.

Market making volumes traded



- SMA trade volumes are following an increasing trend, but are unpredictable and based on concentrated volumes in certain trades
- Trading under SMA remains focused on baseload products (S+1, S+2) but peakload volumes are also following an upward trend. Strong growth in Q4 2016.
- Significant growth in eligible suppliers – 22 at present





Supplier Market Access

Specifically –

- Which element of the SMA rules should be reviewed as a priority?
- Which element of the SMA rules has worked well or not?
- Have you noticed any unintended consequences?

More generally –

- What features of the rules have been more or less helpful to improve the access of small suppliers to the market?
- What features have been costly or difficult for licensees?
- Are there any factors currently limiting success under SMA?
- What features of the rules could change to either improve the access of small suppliers without imposing further costs on generators, or to improve access but with a neutral effect on generators?

Market making

Specifically –

- Which part of the market making condition should be reviewed as a priority?
- Which element of market making has worked well or not?
- Any unintended consequences?

More generally –

- Have you experienced, or seen evidence of, an improvement in liquidity in curve/longer dated products?
- Do you consider that there are now more robust reference prices for the mandated products? Has this changed price robustness at other times of the day?
- What features of the market making could change to either improve near curve and liquidity further out, including price robustness, without imposing further burden/costs on licensees, or to have a neutral effect on them while improving liquidity? Please give detail and your thoughts on pros/cons.

- After three years, where would you have expected the market to be in terms of liquidity (churn, volumes, spreads) if Secure and Promote hadn't been implemented?
- What do you see as the main factors that have impacted liquidity either positively or negatively over the period?
- Going forward, what do you consider will be the main factors influencing liquidity, or risks to liquidity?
- Are there any monitoring indicators you would suggest focusing on?

- **Consultation letter - July 2017**
- **Annual report - summer 2017**

Key points of contact –

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