Secure and Promote Review: Consultation

Consultation

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Contact:	Matthew Gardner, Economist; Hannah Hopper, Economist
Team:	Market Intelligence and Oversight
Tel:	0203 263 9872
Email:	wholesalemarketoperation@ofgem.gov.uk

Overview:

The Secure and Promote special licence condition was introduced in March 2014 to improve liquidity in the GB wholesale electricity market. In this consultation, we are seeking views from interested parties on the impact of the licence condition on liquidity in that market and on the possible need for change. The document outlines our views on the current state of liquidity in the GB power market and summarises data received from monitoring the impact of the licence condition. It also sets out key questions for response by interested parties.

Context

Our principal objective when exercising our functions is to protect the interests of present and future consumers. Understanding the impacts of the Secure and Promote licence condition is an important part of our role in protecting the interests of 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. This is a consultation to get the views of stakeholders to inform our review.

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)
- 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)

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Executive Summary

We are seeking views and evidence on whether the Secure and Promote licence condition[1] ("the licence condition") has met the original objectives of the policy: to improve independent suppliers' access to the wholesale market and ensure that the market provides the products and price signals that all companies need to compete effectively. We are also seeking views on whether any changes should be introduced to better facilitate those objectives.

Ofgem has been monitoring liquidity in the GB wholesale power market and compliance with the licence condition since the introduction of Secure and Promote in March 2014. At the time of its implementation, we said we intended to leave the licence condition in place for a significant period (at least three years) before conducting a review of whether the policy remains appropriate. This was to allow enough time for robust conclusions to be drawn from the evidence. This document sets out results from our market monitoring and seeks views on specific consultation questions.

Having tracked liquidity in the market and analysed data received from Secure and Promote licensees under their reporting obligations, the data suggests that some measures of liquidity have improved since the introduction of the policy. By design, the policy has led to improved reference prices through the mandated bid-offer spreads on market making products, while wider spreads in non-mandated products suggests that improvements are not being seen across the whole market. We have also observed greater traded volumes of products for forward delivery, suggesting some improvement in the availability of products which support hedging. However, we do also notice a further concentration of traded volumes within the market making windows. Our evidence suggests that liquidity in near-term markets has not been adversely affected.

Since 2014 we have engaged with industry and have welcomed feedback on the operation of the licence condition. Stakeholder views have been mixed as to whether the policy has improved liquidity. In relation to how the licence condition should look going forwards, feedback received so far has fallen into three broad categories:

- Maintain the status quo – the policy has some benefit and it would be detrimental to remove it or change it significantly
- Increase the scope of the policy – keep the Supplier Market Access (SMA) rules as the status quo but increase the scope of the market making condition
- Reduce the scope of the policy – keep the SMA rules unchanged but remove or relax the policy in terms of market making, due to obligated licensees' concern about the policy costs.

If a change in the policy is required it must be in the best interests of consumers.

In this consultation, we are asking interested parties for their views and for supporting evidence on:

[1] Special Condition AA of the Electricity Generation Licence.

- The impact of the licence condition to date, including evidence of any costs and benefits of the policy

- If there is insufficient evidence to establish definitive conclusions on the effectiveness of the policy, whether we should continue the policy for a period of time to enable further assessment, and if so for how long

- Whether the policy could be refined to better facilitate the original objectives.

Responses to this consultation will be reviewed and carefully considered by Ofgem before we decide whether changes to the licence condition are beneficial to liquidity and to the market. In the event that we decide that changes to the licence condition are required we intend to publish a statutory consultation in the autumn of 2017.

1. Background and current state of liquidity

This section describes the background to Secure and Promote and its three objectives. It also sets out data we have been using to track liquidity in the market. We first consider metrics that look at the availability of products that support hedging and price robustness, such as the volume of forward products traded, bid-offer spreads, and churn. We then look to our monitoring of near-term liquidity.

Background

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

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 prevents them from benefitting fully from competition.

1.3. As indicated in Figure 1, the licence condition has three liquidity objectives which represent characteristics of the wholesale electricity market that are necessary to support effective competition. These are:

1.3.1. 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;

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

1.3.3. 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. Further background to the policy can be found in our first annual liquidity report, published in 2015[3].

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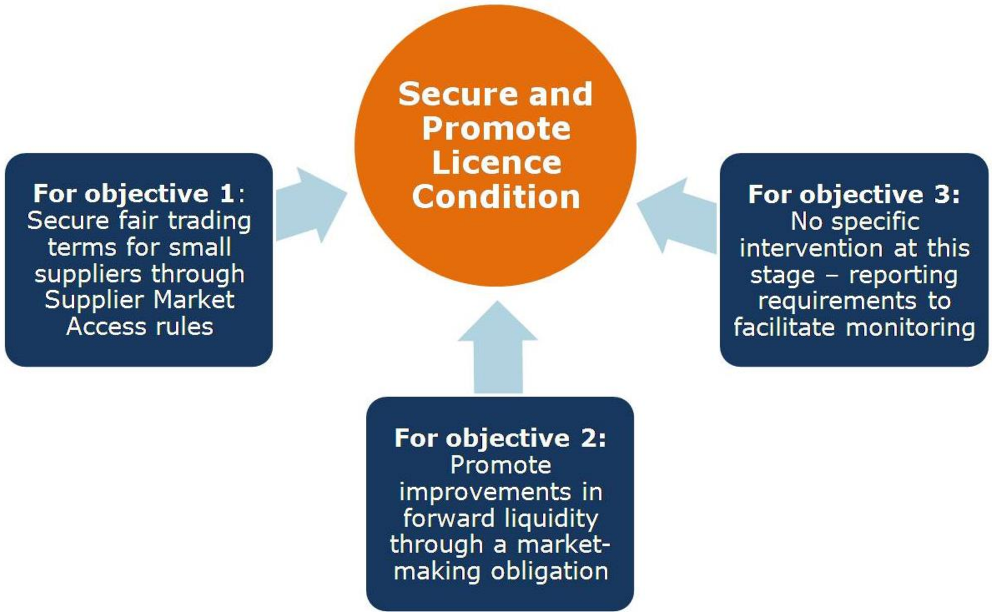
[2] There are currently five obligated licensees under the market making condition.

[3] The 2015 annual report can be found here: https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/wholesale_power_market_liquidity_annual_report_2015_0.pdf

Figure 1 – Outline of Secure and Promote



Trading of products further out along the curve

1.5. One indicator of market participants' ability to access products that support hedging is the volume of the Over the Counter (OTC) market that is traded months and years ahead of delivery. Concern was raised in our 2013 consultation on the policy that the proportion of trading further out on the curve for peak and baseload products had fallen in the preceding years.

1.6. Figure 2 and Figure 3 below show that since the introduction of Secure and Promote in 2013 there have generally been slight increases in the volumes of all contracts traded. There has been an increase in volumes traded of further-dated (as opposed to near-term) products, particularly evident in peakload contracts, where the total volume traded between 2 and 24 months ahead of delivery has increased from 21.9 TWh in 2013 to 67.0 TWh in 2016. Traded baseload volumes for delivery 2 to 24 months ahead of delivery has increased from 413 TWh in 2013 to reach 705 TWh in 2016. Off-peak products continue to be traded mainly near-term.

1.7. Figure 4 shows the total volume traded in Secure and Promote baseload products since the introduction of the policy, with the volume of longer dated contracts (Season +2, 3 and 4) increasing from 262 TWh in 2013 to 441 TWh in 2016. The large volumes in 2016 may be due to increased market volatility, but broadly we see that the trend is of increased availability of products used for hedging over the last three to four years.

Figure 2 – OTC trading in baseload forward products. Source: ICIS

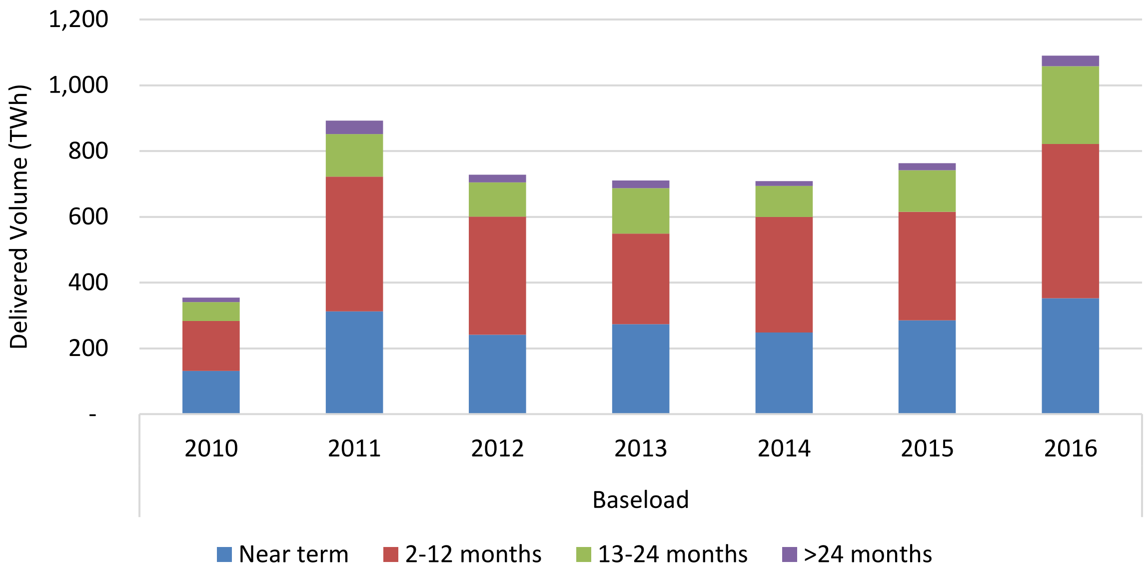


Figure 3 – OTC trading in peak and off-peak forward products. Source: ICIS

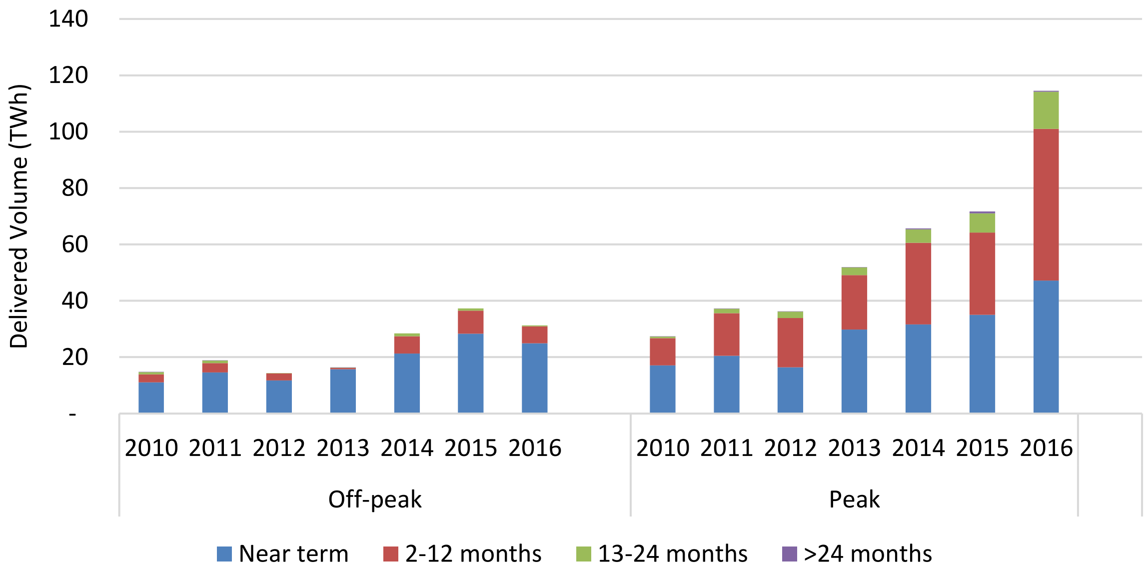
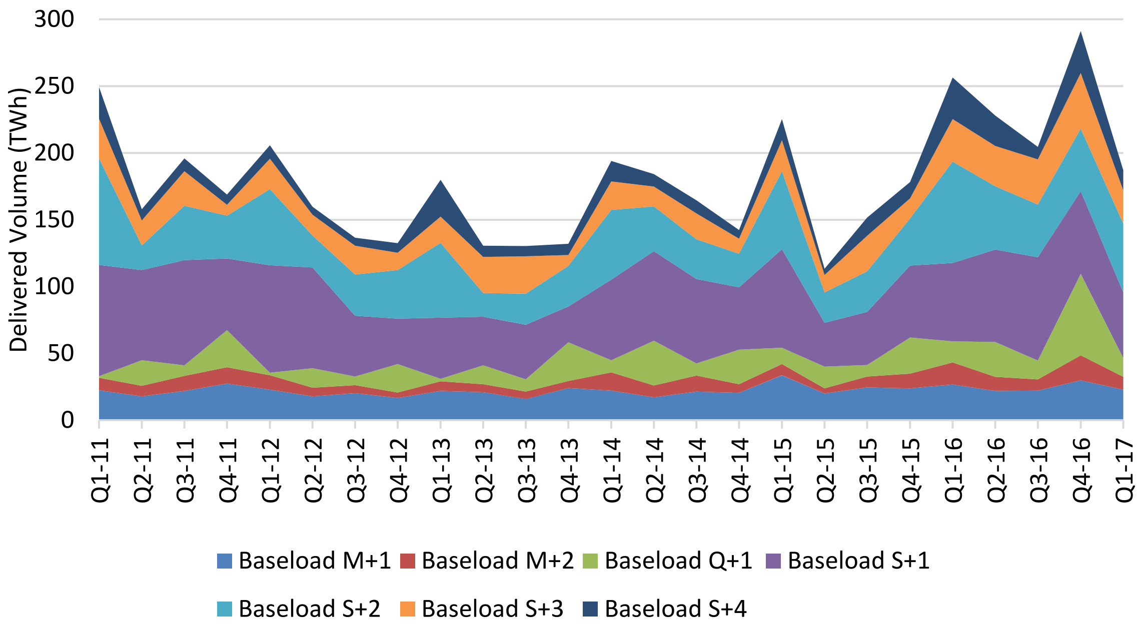


Figure 4 – Secure and Promote baseload products traded OTC. Source: ICIS



Price robustness

1.8. Bid-offer spreads describe the difference between the best offer (to sell) and bid (to buy) in a market. Bid-offer spreads are generally a strong indicator of liquidity as they show the degree of 'consensus' around views of the market price and suggest that opportunities for arbitrage have been exhausted. To this end, they give an indication of how robust prices are for forward products. By robust we mean that they reflect the underlying value of the contract. Narrower bid-offer spreads also give market participants confidence that they can buy and sell without significant transaction costs.

1.9. Figure 5 below shows that bid-offer spreads on market making products[4] narrowed after the introduction of the policy. Spreads on peakload forward contracts fell from more than 1.8% of the best offer in 2010 to around 0.5% in 2017. Spreads increased during Q4 2016 in response to increased market volatility but fell back to previous levels by Q1 2017. To some extent the downward trend is a direct consequence of the design of the MMO itself as it prescribes a mandatory 0.5% spread on some market making products and the spreads are reported at the end of the afternoon market making window. These spreads were originally chosen to be similar to spreads in NBP gas, where liquidity has not proved to be an issue.

1.10. Figure 6 shows that gas spreads have also remained around or slightly below their 2010 levels. The spreads for Secure and Promote products have fallen proportionately more than the spreads for these gas products.

[4] The baseload market making products are Month+1, Month+2, Quarter+1, Season+1, Season+2, Season+3 and Season+4. Peakload market making products are Month+1, Month+2, Quarter+1, Season+1, Season+2 and Season+3.

Figure 5 – Bid-offer spreads on selected market making products. Source: ICIS

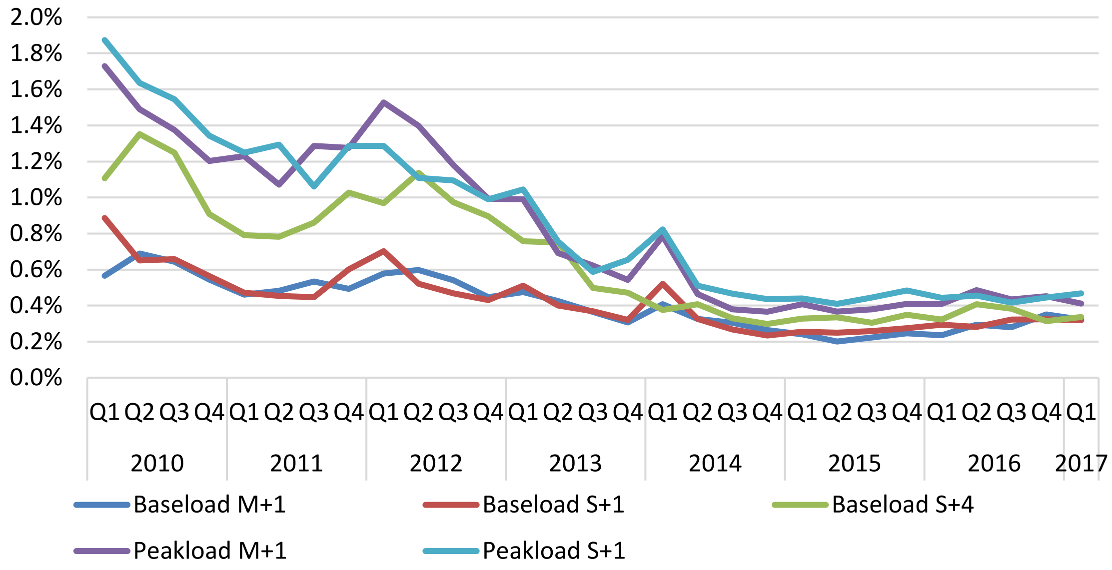
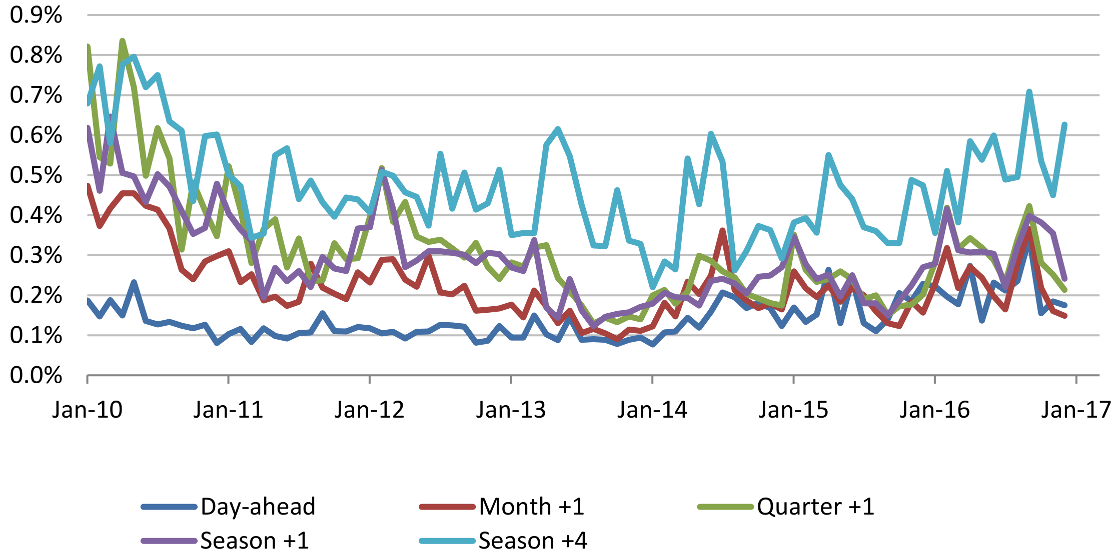


Figure 6 – Bid-offer spreads on a selection of NBP gas products. Source: ICIS



1.11. For comparison, Figure 7 shows spreads in mandated and non-mandated products. There has been an upwards trend in bid-offer spreads over the period in the non-mandated products (dashed lines). This indicates that in the absence of Secure and Promote that narrower spreads would likely have remained unavailable both inside and outside the windows.

Figure 7 – Bid-offer spreads on selected baseload products. Source: ICIS

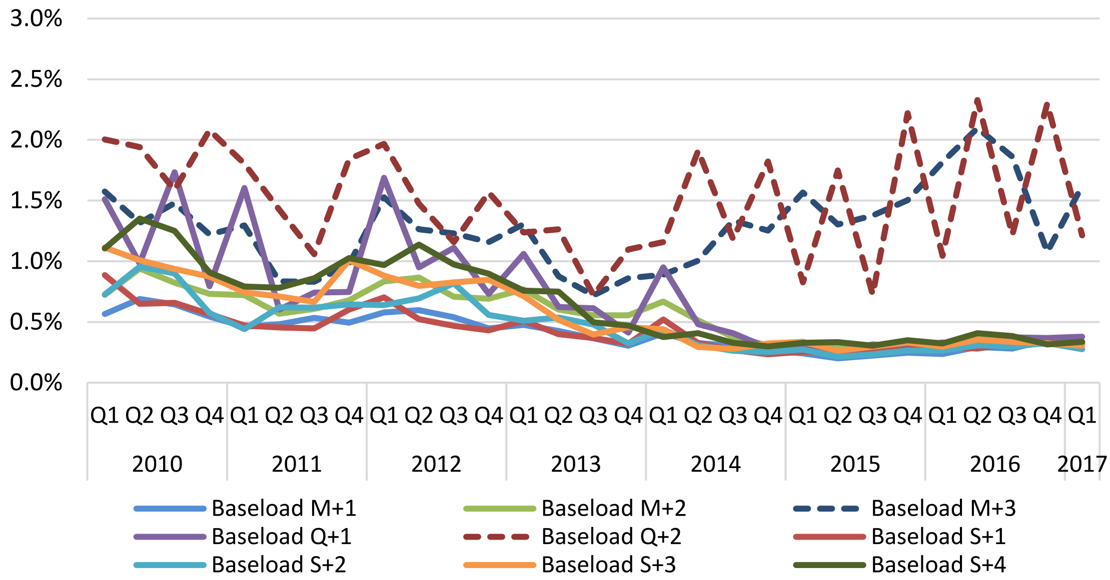
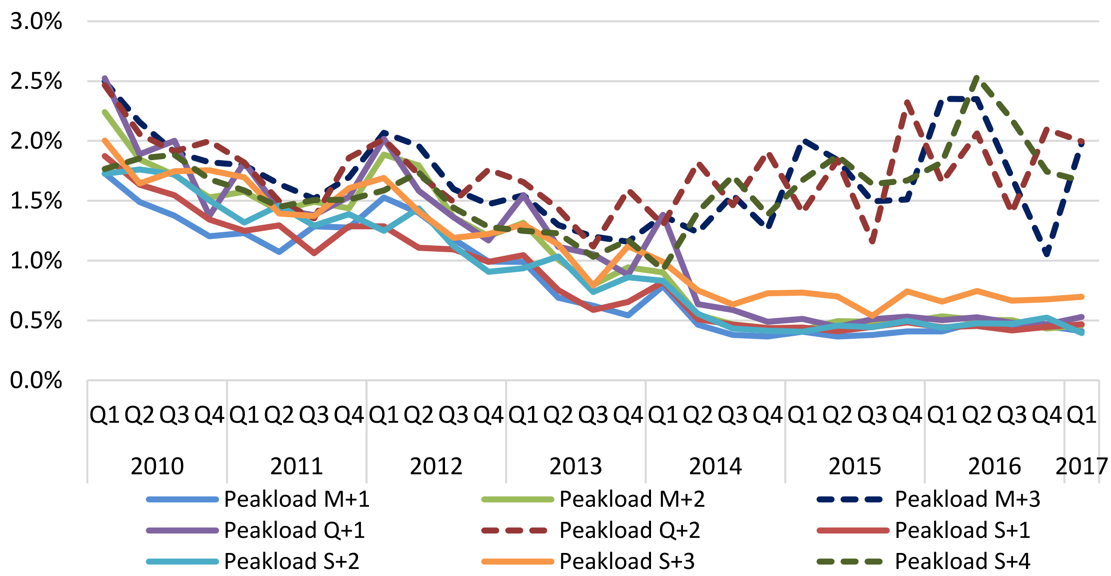


Figure 8 – Bid-offer spreads on selected peakload products. Source: ICIS



Question 1: Please comment on whether you think prices for forward delivery are robust. Please refer to prices in and out of the market making windows and comment on the current mandated bid-offer spreads.

Churn

1.12. Churn measures the number of times a unit of generation is traded before it is delivered to the final customer. It is a useful indicator of the ease with which market participants can trade themselves into and out of long or short positions. A higher rate of churn also may facilitate better reference prices through more actual traded prices, although a high-level measure of traded volumes such as churn does not necessarily provide the granularity to make an assessment of the liquidity of contracts across the curve.

1.13. In the GB gas market, churn regularly exceeds 20 as seen in Figure 10. It has remained broadly stable or has increased slightly since 2011, with the exception of Q4 2016. Electricity churn has been well below this level since at least 2005. When consulting on the introduction of Secure and Promote we were particularly concerned by the emerging trend of falling churn from 2009 to 2013. Since the introduction of the policy we have seen a very slight improvement in churn, but with variability year on year in individual quarters. This could be partly attributed to varying levels of price volatility, and in particular Q4 2016. More volatile markets tend to increase churn due to opportunities to profit through trading.

Figure 9 – Monthly electricity churn, July 2014 – March 2017. Source: BEIS, ICE, N2EX, EPEX

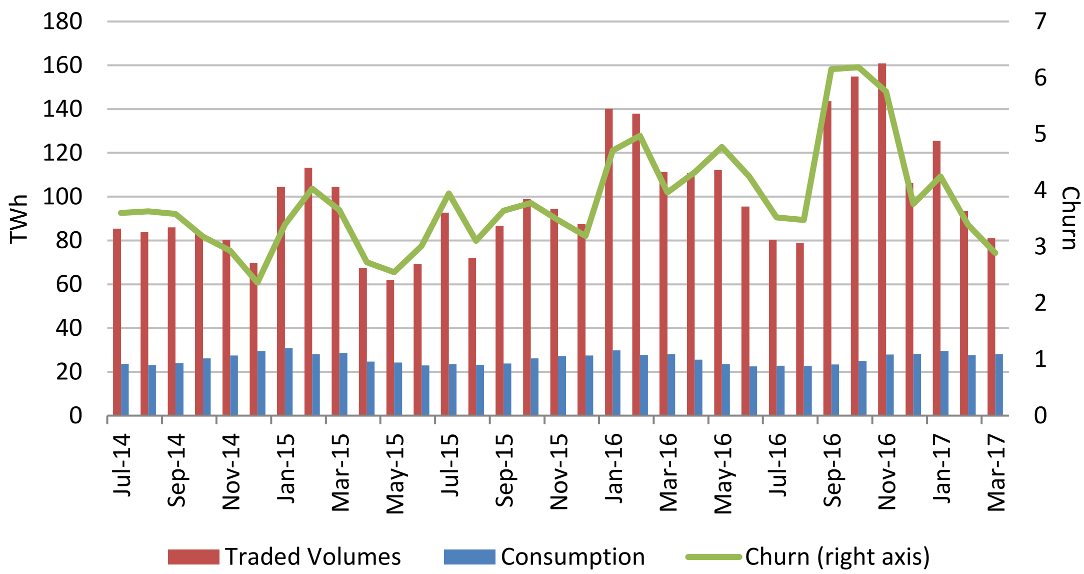
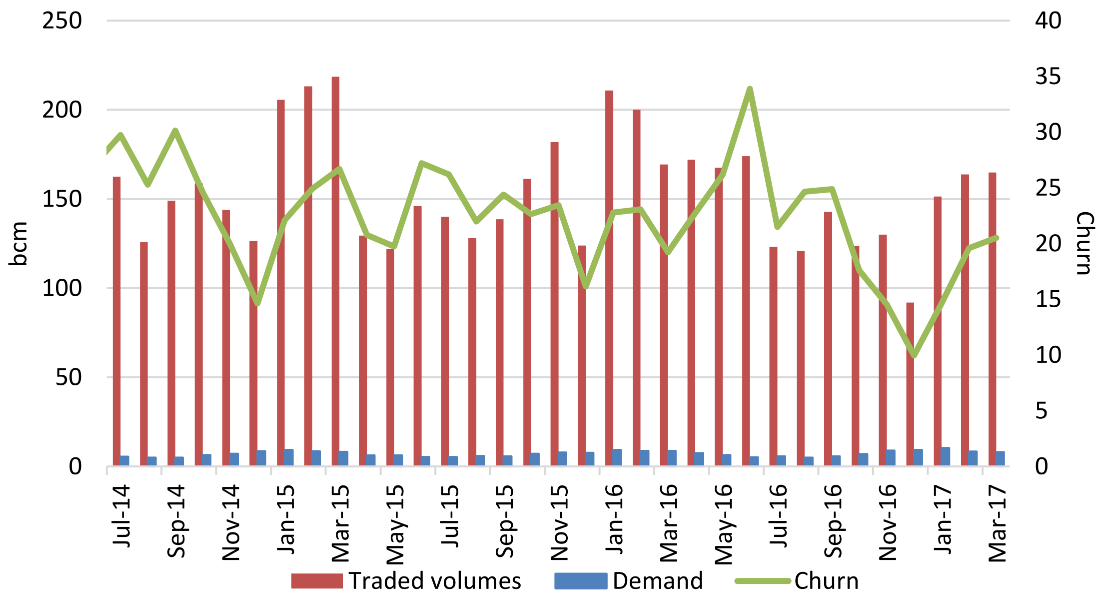


Figure 10 – NBP gas churn. Source: ICE, LEBA, ICE Endex & National Grid



Trading through the day

1.14. Our data shows an increase in the volumes traded in the windows. As seen in Figure 11 below, the volume of forward trades inside the windows has increased since the introduction of the policy, and reflects the higher OTC traded volumes shown in Figure 12. Total OTC trading reached 1,083 TWh in 2016, up 79% from 606 TWh in 2013. We note that while the volume of trades outside of the windows in mornings and evenings has decreased, we see no clear trend on volumes traded in the middle of the day.

Figure 11 – Trading of OTC forward power contracts through the day, quarterly averages. Source: GFI, Griffin, ICAP, Marex Spectron & Tullet Prebon

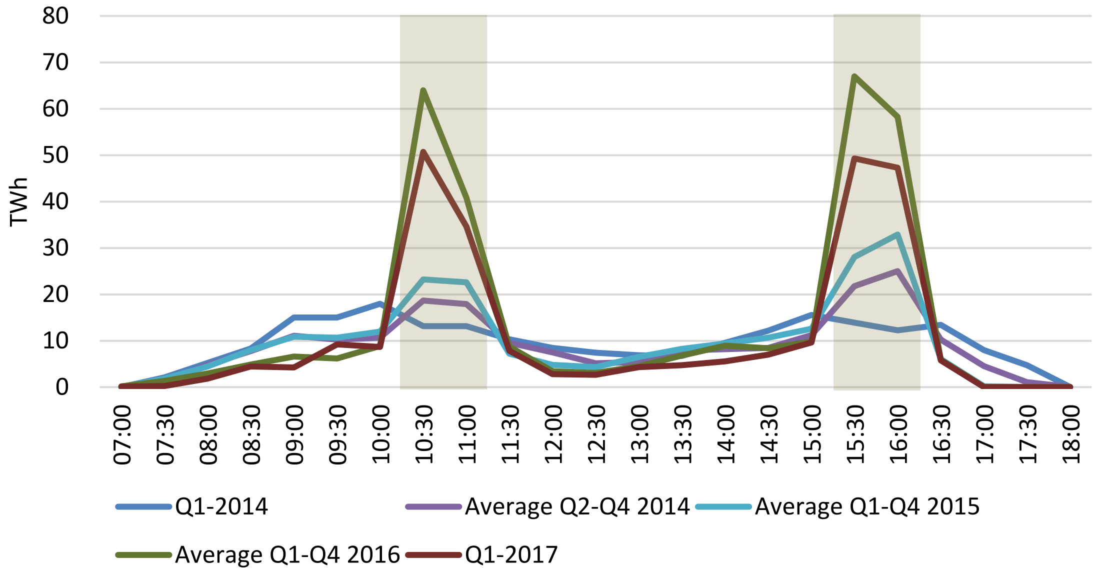
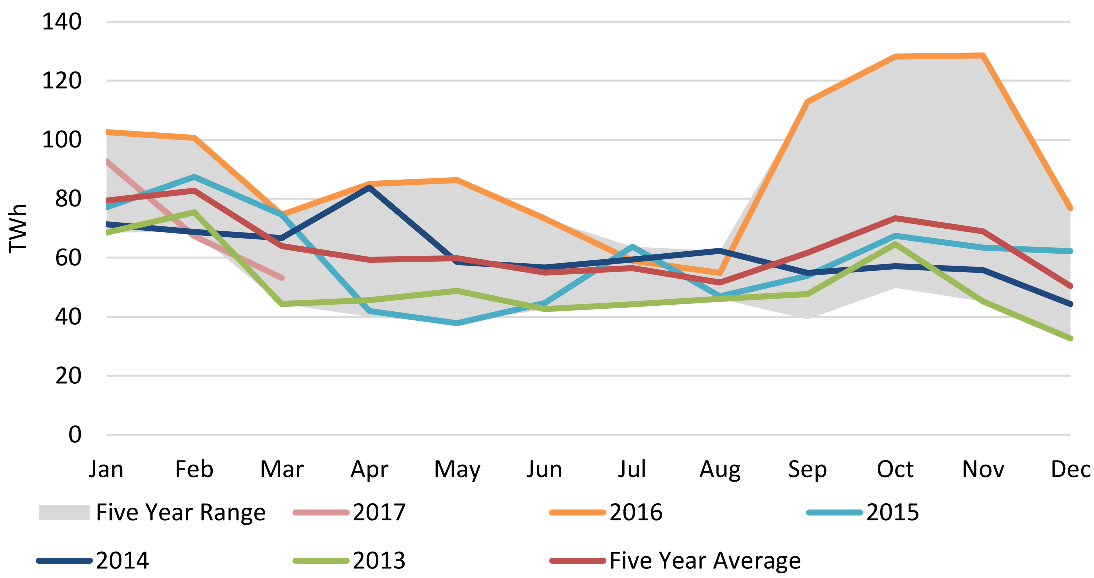


Figure 12 - Volume of OTC power trading 2013-2016. Source: ICIS



Question 2: Please comment on whether the windows promote greater availability of products needed to hedge. Please provide evidence you may have on the availability of products outside the windows.

Near-term trading

1.15. Trading day-ahead and within-day takes place through brokers OTC and also through auctions and exchange platforms run by EPEX SPOT and Nordpool Spot. At the time of the licence condition coming into force, we did not see any significant liquidity barriers to trading in near-term markets. We did not introduce any specific requirements to improve liquidity in near-term markets but instead required licensees to report their volumes to us traded in the day-ahead auction so that we could have sight of any emerging liquidity issues.

1.16. Figure 13 shows that exchange traded volumes day-ahead and within-day have remained broadly constant since the introduction of Secure and Promote. We have seen more volatile day-ahead prices since 2015 as shown in Figure 14 and Figure 15 respectively. This may reflect tighter margins in the market, greater uncertainty, and the effect of the EBSCR "cash-out reforms" introduced in November 2015.

Figure 13 – Intra-day and day-ahead exchange trading, 2010 – Q1 2017. Source: N2EX, EPEX

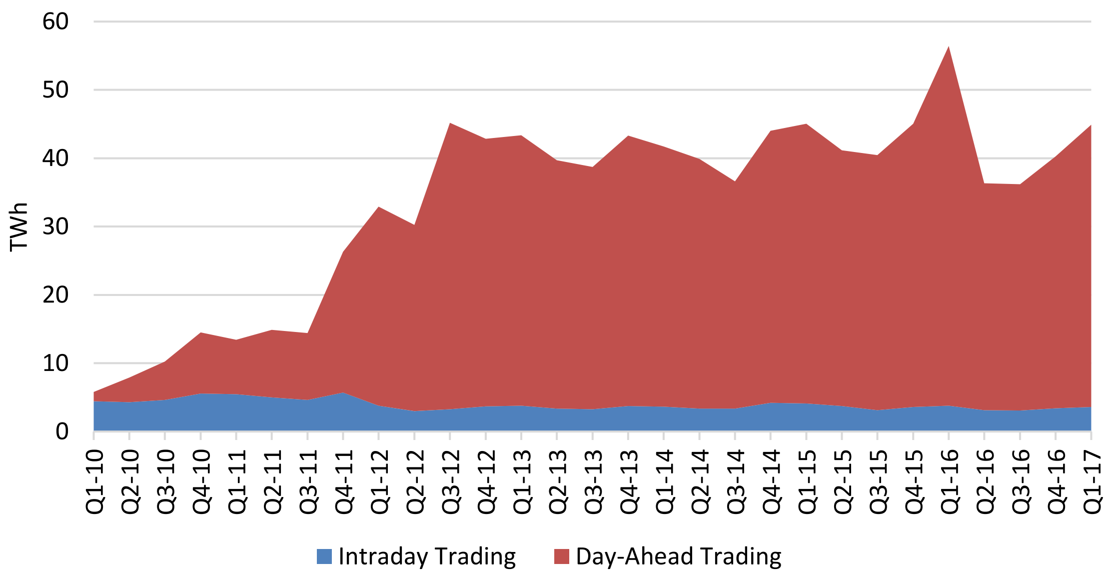
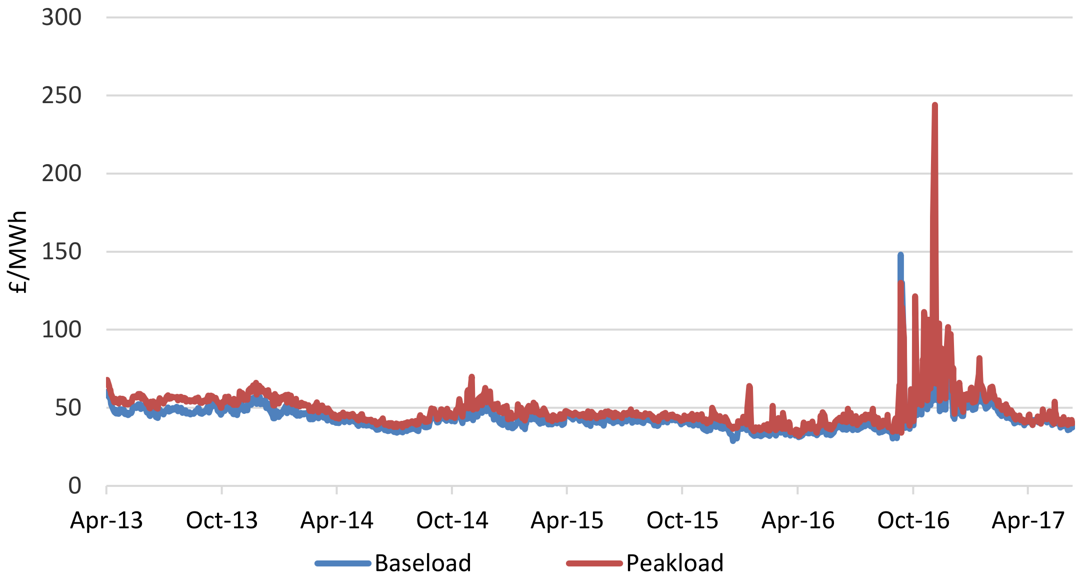
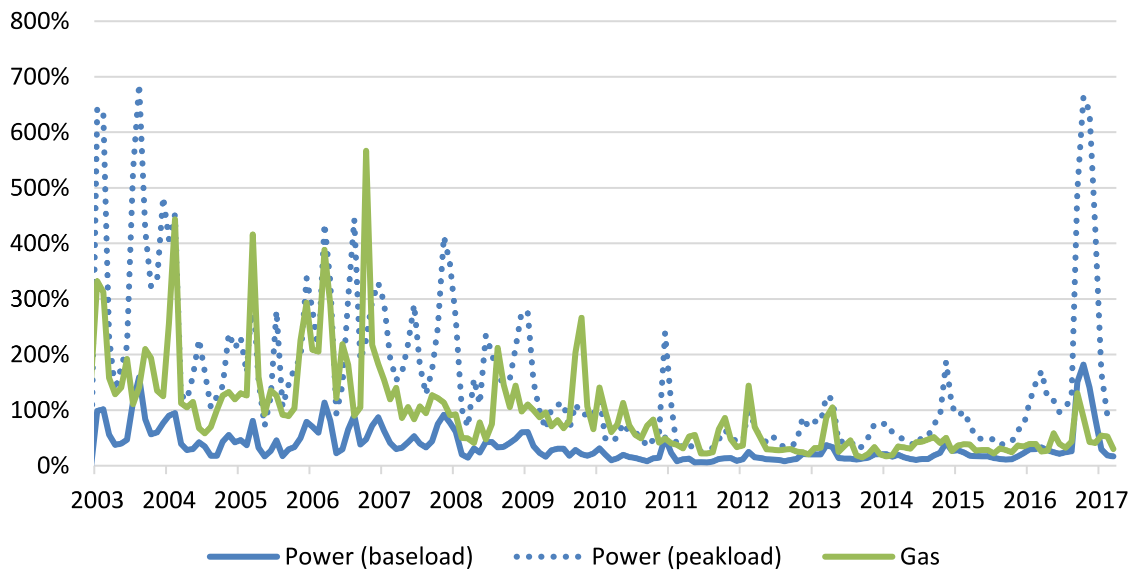


Figure 14 – Daily GB day-ahead power price, April 2013 – May 2017. Source: ICIS



1.17. We note that volatility[5] of power and gas prices has been following a downward trend since 2003, with the exception of the last quarter of 2016 when power volatility spiked in response to the tighter supply margin situations in the market in September 2016 and in Q4 2016.

Figure 15 – GB day-ahead power and gas price volatility. Source: ICIS



[5] Price volatility is calculated in accordance with European Commission guidelines.

1.18. Overall near-term liquidity appears to have been largely stable since the introduction of Secure and Promote.

Question 3: What are your views on how liquid the near-term market is? Please refer to any factors that you consider have contributed to the liquidity of the near-term market.

Question 4: What are your views on our high-level analysis of the state of liquidity? Are there any factors not identified that we need to consider to assess liquidity or Secure and Promote? Please provide quantitative or qualitative evidence where relevant.

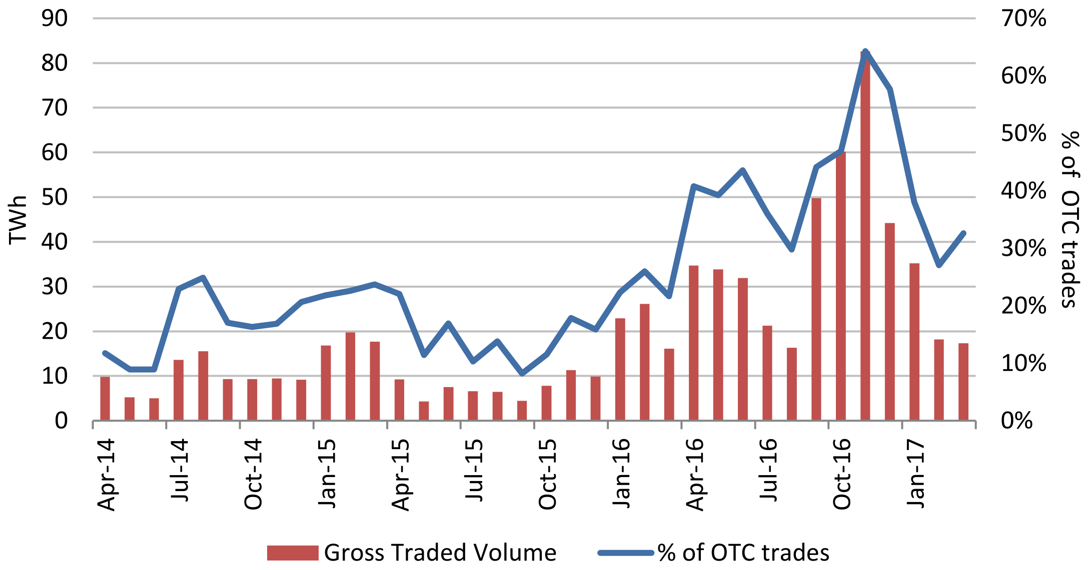
2. Monitoring from Secure and Promote licensees

This section summarises the analysis from the data received from Secure and Promote licensees under their reporting obligations for market making volumes and volumes traded with eligible suppliers. It also includes analysis from the data received on a voluntary basis from licensees on the volumes they have traded both with non-eligible small suppliers as well as volumes of trade in products not included in the SMA rules.

Market Making

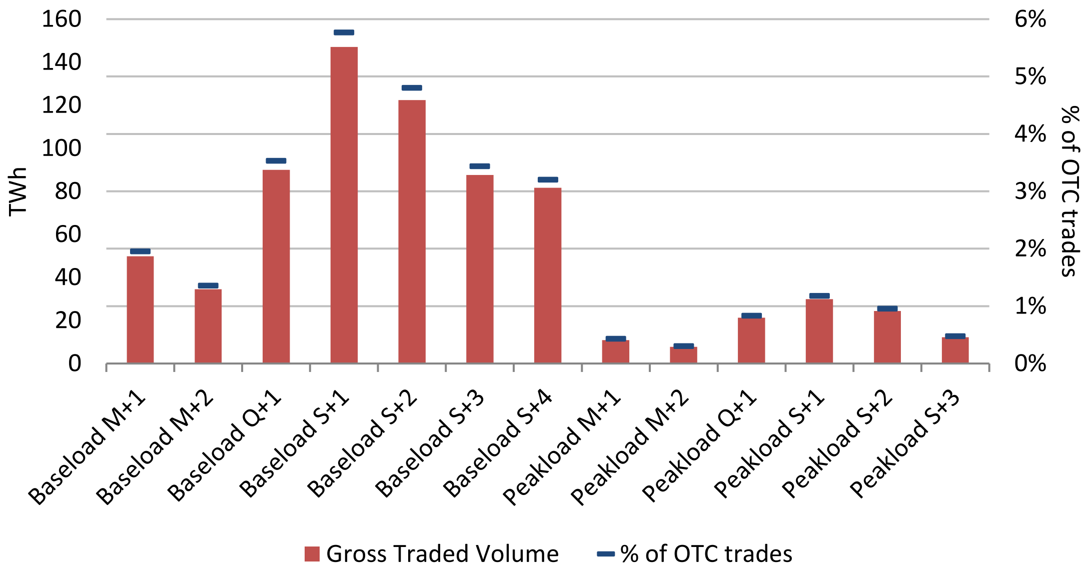
2.1. Figure 16 shows the volumes traded by the obligated licensees as market makers since April 2014 to end of Q1 2017. Overall, volumes have followed a clear upward trend since the initial introduction of the obligation. Over time, volumes tend to follow a cyclical pattern following the summer and winter seasons and the overall trend of OTC traded volumes. Volumes increased significantly over Q4 2016 due to larger amounts of market volatility, rising to above 80 TWh in November 2016 from previous highs of around 35 TWh in Q2 2016.

Figure 16 – Market making volumes traded, April 2014 – March 2017. Source: S&P Licensees' submissions to Ofgem



2.2. Figure 17 below shows that market making volumes remain focused on baseload products, in particular one and two seasons ahead, although this is partly by virtue of the number of hours of delivery within the contracts. The data also shows that peakload products are traded more in the market making windows compared to the market overall.

Figure 17 – Market making volumes traded by contract, April 2014 – March 2017. Source: S&P Licensees' submissions to Ofgem



Question 5: What are your views on the impact of the market making obligation on liquidity in different market conditions, including in benign times and in times of price volatility?

Fast market rule and volume cap use

2.3. The Secure and Promote licence condition provides for licensees to withdraw from posting bids and offers in the designated market making windows under certain circumstances. The "volume cap" applies if licensee develop a 30MW net position on a product in the window. The "fast market" rule applies if prices for a product increase or decrease by 4% compared to the first trade in the window[6]. These rules effectively limit the risk borne by licensees in the market making windows. Figure 18 below shows the amount of times the volume cap and fast market have been used by the market making licensees between Q2 2014 and Q1 2017, as reported in their quarterly submissions.

2.4. We note that the volume cap has been used increasingly by licensees over the time of the policy. In Q2 2014, for example, the volume cap was used 32 times. It has risen to 136 in Q2 2016 and 515 in Q4 2016.

2.5. The fast market rule has been used less than the volume cap, but has also followed a rising trend. In 2015, for example, the fast market rule was used 28 times, rising to 117 in 2016 (including 62 times in Q4 2016).

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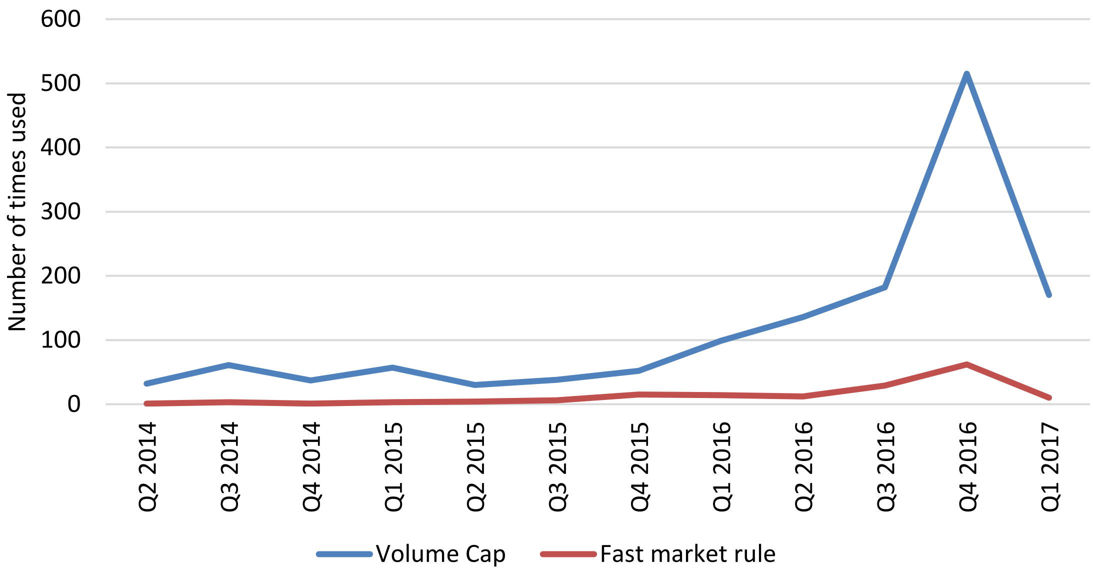
[6] Part 7 in schedule B of the Special condition AA (reproduced in Appendix 2 of this document) refers to the suspension of the obligation under the fast market rule, although this term is not used explicitly.

Figure 18 – Use of the volume cap and fast market rule, Q2 2014-Q1 2017. Source: S&P Licensees' submissions to Ofgem



Question 6: What are your views on the fast market and volume cap rules, in particular on reducing risk for licensees when needed?

Supplier market access data

2.6. Our analysis of the data as reported by obligated licensees shows variable trading volumes with eligible suppliers over the period since the introduction of the policy (Figure 19). As with brokered OTC volumes, trading with eligible suppliers increased significantly in Q4 2016. The total number of trades per month remains low, however the number of suppliers who are now eligible has increased to 25 from 18 in 2016.

2.7. Much like the market making volumes, SMA volumes are also concentrated in baseload contracts, particularly one and two seasons ahead (Figure 20).

Figure 19 – SMA volume traded, Q2 2014 – Q1 2017. Source: S&P Licensees' submissions to Ofgem

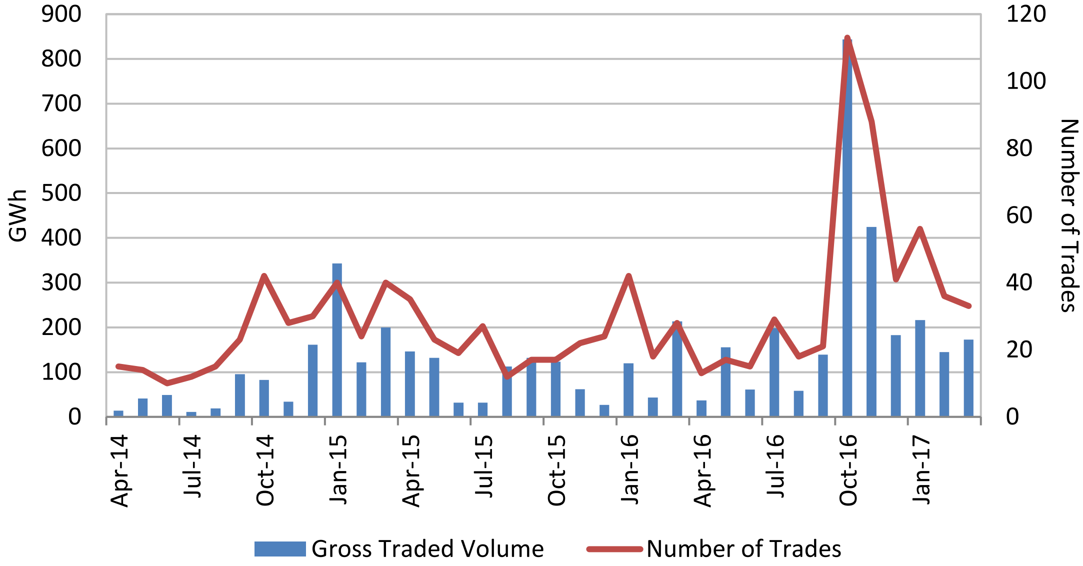
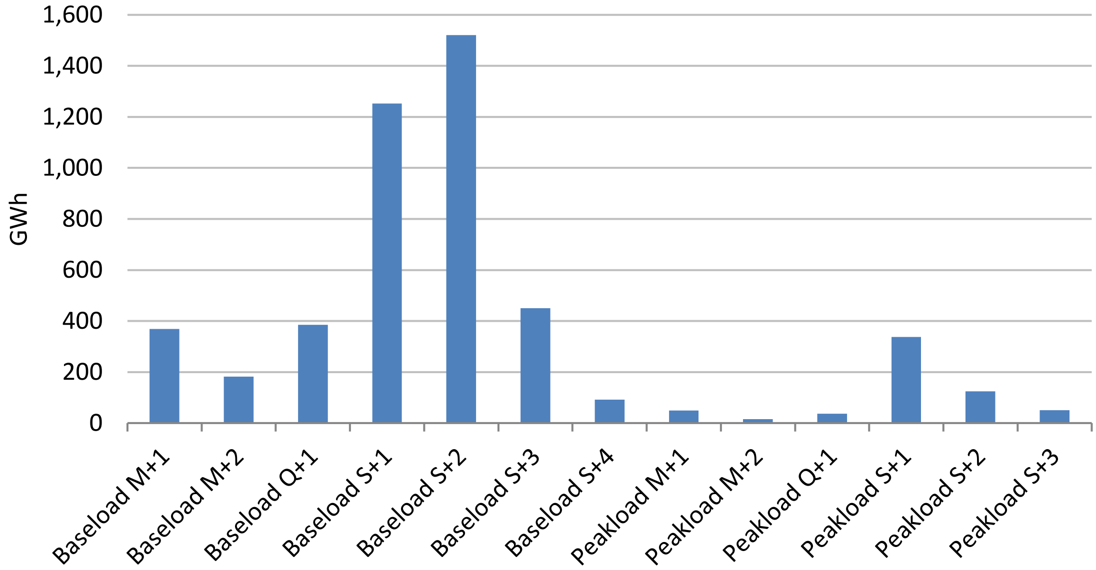


Figure 20 – SMA contracts traded in Q2 2014 – Q1 2017. Source: S&P Licensees' submissions to Ofgem



Small suppliers – Voluntary data

2.8. Our monitoring at the outset of the policy included only volumes traded with eligible suppliers. In 2015, after stakeholder feedback on the topic, we also began collecting volumes traded with all small[7] suppliers regardless of eligibility under

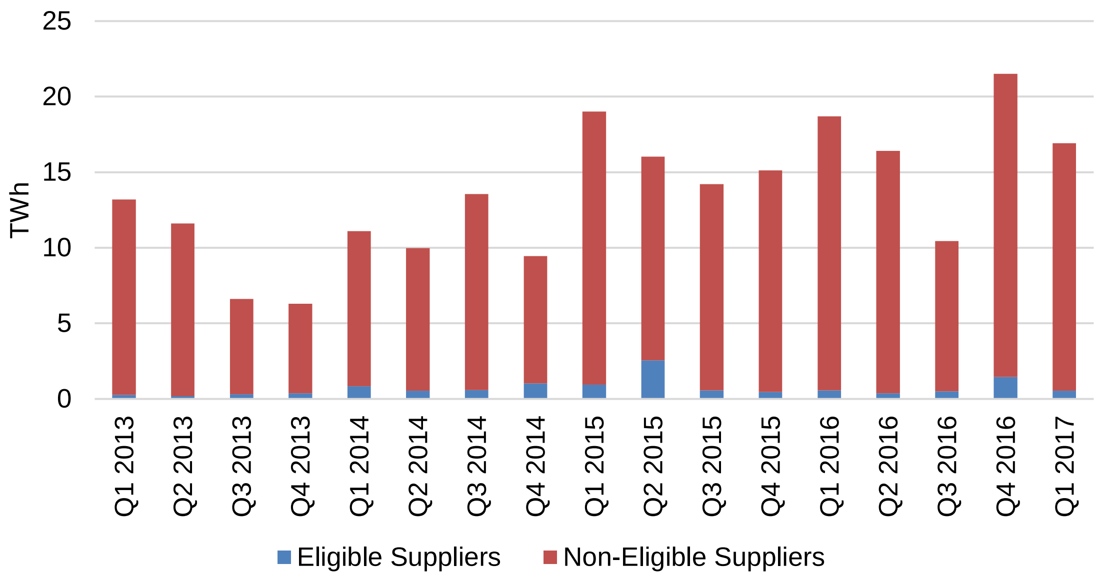
[7] Small suppliers do not have a strict definition in the context of this data, but generally mean power suppliers with less than 250,000 customers in GB, and which are not vertically integrated.

the SMA rules. This was after we received feedback that compliance with the SMA rules had led to better trading conditions for all small suppliers.

2.9. The data set is not complete because it is collected on a voluntary basis, and does not include volumes traded by the all of the licensees. However, we have noted a trend of increasing volumes of trade in SMA products, as well as in the volume of trade with both eligible and non-eligible suppliers since Secure and Promote was introduced as seen in Figure 21 and Figure 22 below. The picture for non-SMA products (all products not included in the SMA rules) is more mixed, with volumes varying over time and follows a slight downward trend. We note that the volumes traded are variable in all cases, reflecting some seasonal trends and the 'lumpy' nature of product requirements of smaller suppliers.

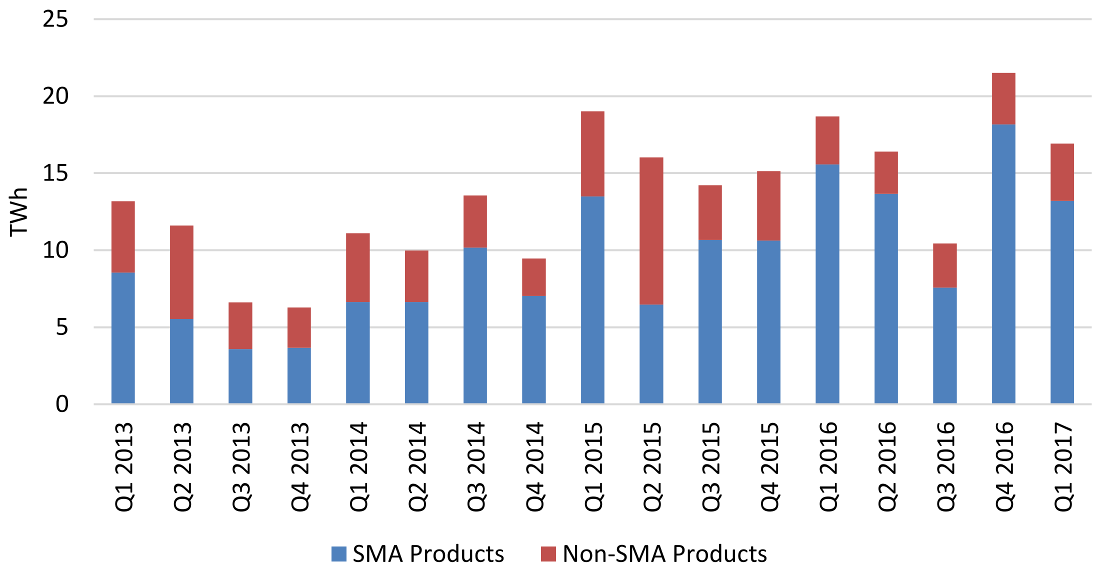
2.10. The increasing trend in both the volume of trade with small suppliers, and in SMA products traded with both eligible and non-eligible suppliers since Secure and Promote was introduced suggests that small suppliers have had greater access to the wholesale market. This may be due to greater price transparency for these products in the market, or due to improved trading relationships with the large generators.

Figure 21 – Volumes traded with eligible and non-eligible suppliers[8]. Source: S&P Licensees' voluntary submissions to Ofgem



[8] Eligible suppliers are those suppliers that have asked to be classified as such under the relevant criteria. Non-eligible suppliers are those that have not applied to be classified as such. The data set goes back to 2013 prior to Secure and Promote, but we have presented the data according to the split between the SMA and other products for consistency.

Figure 22 – Volumes traded in SMA and other products. Source: S&P Licensees' voluntary submissions to Ofgem



Question 7: What are your views on how the SMA part of the licence condition has helped smaller suppliers to access the wholesale market?

3. Relevant other policy factors and feedback

The environment in which the industry operates potentially faces significant change over the coming years. It is in the best interests of consumers that any decision to alter or remove the Secure and Promote policy is mindful of broader trends. This section discusses some of those trends and invites comment on any other relevant issues.

MiFID II

3.1. In our decision letter on the introduction of Secure and Promote we stated that we would complete any review prior to significant changes in European financial legislation, in particular the revised Market in Financial Instruments Directive (MiFID II). We noted that we would focus particularly on whether revisions to European financial legislation would be likely to create disproportionate changes to the costs faced by licensees subject to the MMO.

3.2. MiFID II is currently set to take effect from 3 January 2018. Based on the current legislation and market developments, we do not currently see that the changes are likely to create an additional burden on the market makers. However, we welcome any feedback on this point and we will retain the clause in the licence condition that allows licensees to request a further review should circumstances change.

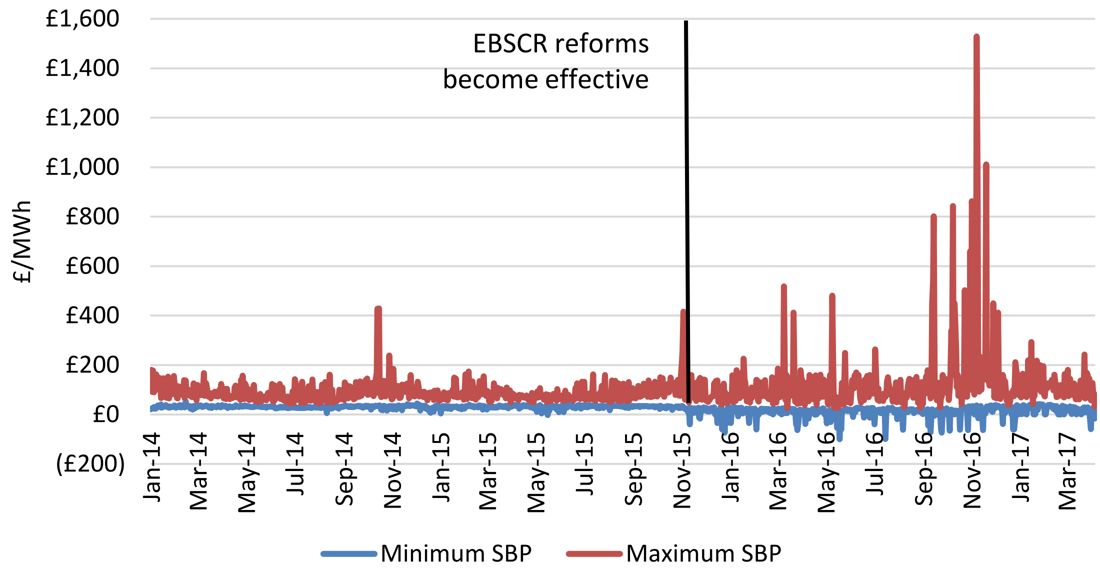
Interaction with REMIT

3.3. At the time that Secure and Promote became effective, the regulation on Wholesale Energy Market Integrity and Transparency had already been introduced into both European and domestic legislation. However, as time has passed companies have been improving their processes in order to ensure compliance with the regulations. We believe that these improved processes and better market transparency have improved market conditions for trading since 2013. Furthermore, we do not believe that there should be any contradiction between a company discharging its obligations under the MMO and compliance with REMIT. We welcome respondents' feedback on any perceived interactions between the two.

Cash-out reform – Electricity Balancing Significant Code Review (EBSCR)

3.4. In November 2015, significant reforms to the cash-out mechanism were introduced through the EBSCR. Since the reforms came into effect, imbalance prices have become significantly more volatile. The graph below shows that the maximum and minimum system buy price on each day between January 2014 and April 2017. Sharper cash-out prices increase the incentive for parties to hedge appropriately and underline the importance of liquidity all along the curve.

Figure 23 – Daily minimum and maximum system buy prices, January 2014 -1 April 2017. Source: NetaReports



Question 8: What in your view are the additional relevant external policy factors we should consider in our assessment of Secure and Promote?

Legal structure of Secure and Promote

3.5. At the outset, we decided to implement our Secure and Promote policy through a special condition inserted into all generation licences held by certain company groups. The detail of the legal obligations is set out in the schedules to the special licence condition. A modification to those schedules need to follow the standard statutory process, including consultation phases and opportunities for appeal.

3.6. However, having the ability to adjust the obligations without licence change could be of use at times, as it would allow the obligations to adjust to changing market conditions.

Question 9: What are your views on amending the licence condition to allow flexibility during certain market conditions?

Licensee costs of complying with the Secure and Promote obligation

3.7. When introducing the Secure and Promote policy in 2013, we estimated both the set-up and ongoing costs to licensees of discharging their obligations under the SMA and MMO components of the licence condition. Our best estimate for set-up costs at the time were £252,000 (SMA) and £300,000 (MMO) per licensee. Ongoing annual costs were predicted to be £472,000 (SMA) and £1,600,000 (MMO).

3.8. Early feedback on the policy suggested that the ongoing costs were significantly below those predicted in our impact assessment. However, more recently some licensees have raised concerns about escalating costs during periods of price volatility.

Question 10: What are your views on the costs and benefits of complying with the policy either as an obligated licensee or as a general participant? Please provide evidence and detailed costs/ benefits per annum.

Question 11: How can liquidity be improved without the costs of the policy increasing significantly? Alternatively, how can costs of the policy be reduced without significantly reducing liquidity?

Stakeholder feedback

3.9. Since the policy came into effect, we have sought feedback from stakeholders on the impact of the policy. This feedback has been summarised in our interim report on Wholesale Power Market liquidity in 2014 and in our annual liquidity reports[9]. In May 2017 we held a Secure and Promote workshop where a variety of stakeholders gave their views on the policy and the scope of our review.

3.10. In general, feedback from independent suppliers since implementation has been that they are finding it easier to access products for hedging because of the policy. Feedback from some smaller suppliers at the May 2017 workshop was that the MMO and SMA rules had improved liquidity, allowing them to better hedge and giving robust reference prices for the mandated products. Many independent suppliers however would also like to see greater liquidity in forward 'block' products that are more granular than peak and baseload products. Some suppliers continue to see credit and collateral arrangements as a barrier to trading. We reminded licensees of the need to offer transparent prices in our letter of 18 August 2015[10].

3.11. Feedback from both licensees and independent suppliers on the SMA rules has been broadly supportive and we did not hear calls for any significant changes. Early feedback from small suppliers was that they had been finding it easier to access products and that the response from licensees to trading requests had improved, which indicates that the SMA rules were having a positive impact on the ability of small suppliers to trade.

3.12. We have been told by some of the licensees that the burden of compliance under SMA rules to them was not commensurate with the level of participation by eligible suppliers. Of note though is the increase in the quantity of eligible suppliers from fewer than 10 at the outset to 25 in June 2017. Some independent suppliers also believe the improved processes put in place by the licensees now means that many of the benefits of eligibility under the SMA rules can also be enjoyed by independent suppliers who are not on the official eligible suppliers list[11].

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[9] These documents are referenced in 'Associated documents' at the beginning of this consultation.
[10] Letter of August 2015: https://www.ofgem.gov.uk/publications-and-updates/improving-transparency-eligible-suppliers-prices-charged-under-secure-and-promote-supplier-market-access-rules
[11] The most recent list of eligible suppliers is published here: https://www.ofgem.gov.uk/publications-and-updates/list-eligible-suppliers-supplier-market-access-rules

3.13. In relation to the MMO, some stakeholders have raised concerns that bid-offer spreads have increased outside the market making windows. Feedback from some stakeholders has indicated that having two windows with relatively narrow spreads is beneficial to the market. They said that the strong liquidity in the windows provides wider availability of products for hedging than was the case prior to the introduction of Secure and Promote, and that the visibility of actual traded prices helps to provide a robust reference price useful to participants beyond those in the actual trades. Some stakeholders have said that two hours of strong liquidity per day is better than low liquidity all day as seen prior to Secure and Promote.

3.14. Some stakeholders however, particularly MMO licensees, have raised concerns that there has been a significant reduction in liquidity outside of those windows since the introduction of the MMO. They believe that this limits trading opportunities and may be acting as a disincentive for financial players to enter the market.

3.15. MMO licensees have also raised concerns that the required spreads for market making made the obligation difficult to manage during the market volatility seen at the end of 2016. The licence condition currently has a volume cap and fast market rule to mitigate these risks for licensees but some have fed back that these were insufficient, and that the parameters of the fast market rule and to a lesser extent, the volume cap, were set too wide and too inflexibly to limit their costs and risks as market makers. On the other hand, some independent suppliers have stated that, in the absence of the MMO, trading during these periods would have been very difficult and that prices would have been less robust without market making.

3.16. We have received relatively little feedback on near-term markets. Stakeholders have not raised issues with a lack of liquidity in near-term markets but some suppliers have said that it is now more important for them to be able to hedge further out on the curve, and with more granular products, to hedge against increased price volatility in the near-term. Some market participants have raised some doubts about the usefulness of gross bidding on the day-ahead auctions.

Question 12: Is there any other relevant stakeholder feedback we haven't captured that we should consider?

Next steps

Replying to this consultation

We are consulting on Secure and Promote for 8 weeks. We 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 **5pm on 19 September 2017** (electronic preferred).

Send responses to:

Matthew Gardner/Hannah Hopper
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.

Annual Report

In light of this consultation we are not publishing an annual report for 2017. This is because the content would duplicate that contained within this consultation.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we have conducted this consultation. We would 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, content or clarity?
3. Do you have any further comments?

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

Appendix 1 – Consultation questions

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

Question 1: Please comment on whether you think prices for forward delivery are robust. Please refer to prices in and out of the market making windows and comment on the current mandated bid-offer spreads.

Question 2: Please comment on whether the windows promote greater availability of products needed to hedge. Please provide evidence you may have on the availability of products outside the windows.

Question 3: What are your views on how liquid the near-term market is? Please refer to any factors that you consider have contributed to the liquidity of the near-term market.

Question 4: What are your views on our high-level analysis of the state of liquidity? Are there any factors not identified that we need to consider to assess liquidity or Secure and Promote? Please provide quantitative or qualitative evidence where relevant.

Question 5: What are your views on the impact of the market making obligation on liquidity in different market conditions, including in benign times and in times of price volatility?

Question 6: What are your views on the fast market and volume cap rules, in particular on reducing risk for licensees when needed?

Question 7: What are your views on how the SMA part of the licence condition has helped smaller suppliers to access the wholesale market?

Question 8: What in your view are the additional relevant external policy factors we should consider in our assessment of Secure and Promote?

Question 9: What are your views on amending the licence condition to allow flexibility during certain market conditions?

Question 10: What are your views on the costs and benefits of complying with the policy either as an obligated licensee or as a general participant? Please provide evidence and detailed costs/ benefits per annum.

Question 11: How can liquidity be improved without the costs of the policy increasing significantly? Alternatively, how can costs of the policy be reduced without significantly reducing liquidity?

Question 12: Is there any other relevant stakeholder feedback we haven't captured that we should consider?

Appendix 2 – Special 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 and 10, 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, for volumes of such Product which comply with the requirements of paragraph 9.

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)) 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) 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.

Suspension 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 1.04 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(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. 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:

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

Trade volumes

9. 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. (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, 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. 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. 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	Additional information
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 qualifying platforms pursuant to Schedule B for each Quarter:** 1. gross volume traded in each Product, for each month in the quarter; and 2. the total number of trades in each Product, for each month in the quarter. **The quarterly report must include a statement, approved by a Director of the licensee, in respect of the Quarter:** 1. confirming that the licensee complied with all the requirements of Schedule B; or 2. if the licensee has not complied, giving details of such failure to comply. **The quarterly report must include** the times, dates and an explanation with supporting evidence of the circumstances where a licensee decided to cease posting 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 Product**: • the names of the qualifying platform(s) the licensee has used to comply with Schedule B; • the name of the licensee's Nominee (if used); • where paragraph 4(b) of Schedule B applies, the total number of persons (as referred to in that paragraph) with whom the Nominee has arrangements to trade on the relevant platform.	Gross volumes bought and sold through day-ahead auctions each month

Appendix 3 – Glossary

Agency for the Cooperation of Energy Regulators (ACER)
The European Union body which cooperates with EU institutions and stakeholders, notably National Regulatory Authorities (NRAs) and European Networks of Transmission System Operators (ENTSOs) to deliver a series of instruments for the completion of a single energy market.

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.

Department of Business, Energy and Industrial Strategy (BEIS)
The UK government department responsible for business, industrial strategy, science, innovation, energy and climate change policy.

Electricity Market Reform (EMR)
The government's approach to reforming the electricity system to ensure the UK's future electricity supply is secure, low-carbon and affordable.

EPEX SPOT
EPEX SPOT owns and operates energy exchange markets across Europe. Integrated with former APX Group in 2015.

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.

ICE
Intercontinental Exchange, an American financial company that operates Internet-based marketplaces which trade futures and over-the-counter (OTC) energy and commodity contracts as well as derivative financial products.

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 Coupling
Market coupling is a method for integrating electricity markets in different areas, applied across a number of European countries.

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.

N2EX
The N2 Exchange, a GB electricity market platform, is operated by Nord Pool Spot AS (NPS).

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.

Nord Pool

Nord Pool, the Nordic Power Exchange, a single power market for Norway, Denmark, Sweden and Finland.

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.

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.

Third Package
The Third Package is EU legislation on European electricity and gas markets that entered into force on 3 September 2009. The purpose of the Third Package is to further liberalise European energy markets. BEIS is primarily responsible for its transposition in Great Britain and had to do this by 3 March 2011.

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.