Response to Ofgem's open letter on suspending the Market Making Obligation

Background to ENGIE

In the UK, ENGIE employs 20,000 people in a number of activities across the energy value chain, as well as through its extensive services business.

In generation, ENGIE owns First Hydro, with a total capacity of 2088MW, this are the UK's foremost pumped storage facilities and over 70MW of renewable generation. In supply, ENGIE operates an Industrial and Commercial (I&C) and Small and Medium Enterprise (SME) B2B electricity and gas supply business, and has recently entered the domestic electricity and gas retail markets through its Home Energy business.

It owns the country's largest district heating business, providing district energy solutions to the public, commercial, industrial and residential sectors. A key site is the Olympic Park District Heating facility in London. It is also one of the top five service companies in the UK, subsequent to the acquisitions of Balfour Beatty Workplace, Lend Lease FM and the Keepmoat regeneration business.

ENGIE's views on the proposed suspension of the Market Making Obligation

1. The MMO has provided a known point in the day for a liquidity in the market. This has been of benefit not only to smaller suppliers but also to non-vertically integrated generators. The market is now in fact defined by the MMO windows – there is little liquidity outside of them.

2. ENGIE does however accept that with the derogations being granted to Centrica and E.on and likely changes to the structures of the other obligated parties, continuing to have an obligation in its current form on the remaining four companies may not in the longer term be appropriate.

3. We understand that Ofgem intends to remove the obligation ahead of this winter in recognition that the introduction of PAR 1 will create more short term volatility. This short timetable has not been conveyed in Ofgem's letter and leaves little time for market participants to adjust to the loss of this vital route to market.

4. Since, it is the short term volatility that is the main cost to the obligated companies, rather than suspending the MMO before the winter, there could be a phased reduction of the obligation. Market liquidity risks for prompt months/quarters are more manageable so could be removed from the obligation either all at once or in a staged approach (closest to delivery first). As a trade-off for removing these windows, the seasonal products could remain.

5. This solution would continue to provide market transparency and the ability for retail and generation companies to hedge their activities where liquidity is most lacking. This could remain in place until a longer term liquidity provider/ alternative solution is found.

6. From a liquidity viewpoint, this would be better than a complete removal and when coupled with the wider soft landing spread percentages recently introduced would reduce the cost of complying with the obligation. Alongside this, Ofgem's review should be brought forward. If after this, a decision is made to remove the MMO, it should be well signalled to give trading parties time to adjust.

7. if the MMO is suspended without a concurrent alternative provision, there should be a period of reflection sufficient to establish whether or not liquidity does naturally return – the move away from vertical integration and the growth in challenger suppliers may lead to this outcome. If a further obligation is to be introduced, then it should be after this period of reflection with the replacement obligation consulted on ahead of implementation. ENGIE's preference however is for a third party to act as a market maker with the costs shared amongst industry

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