



Cathryn Scott
Ofgem
10 South Colonnade, Canary Wharf,
London,
E14 4PU

Name Andy Baugh
Phone 07989 493361
Email: andy.baugh@npower.com

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Ofgem Open Letter Secure and Promote update

Dear Cathryn,

Thank you for the Secure and Promote review update of 9th August 2018.

The update states Ofgem are minded to suspend the Market Making Obligation (MMO) licence condition until a further review is completed during 2019. Whilst we understand Ofgem's reasoning, we have concerns and propose an alternative solution.

Many industry participants benefit from MMO so undertaking a complete suspension of the current obligation would have unintended consequences such as a significant regression in liquidity and an immediate impact on the functioning of the market. There is a need for robust and transparent pricing of baseload and peak contracts as this aids parties in serving our customers, and we believe suspending the obligation will have a negative impact on the costs faced by those customers.

The requirement is particularly acute for longer term and peak products. We think it is likely that nearer term contracts (M+1, Q+1, S+1) would suffer least from the removal of the MMO windows but we are concerned that trading in some of the further out products could be quite sporadic. As such, if Ofgem wish to change the current obligations, consideration should be given to adjusting the obligated contracts, rather than a wholesale suspension.

MMO in its current form is unfair as the cost of the obligation is borne by a small subset of the market. We are of the opinion that the cost should be socialised, and we expressed this view in our response to the previous Secure and Promote consultation:

"Npower feels the current MMO should be replaced with a fairer, competitive framework which would deliver lower and more accurate cost. This could be achieved with 2 options:

1. By widening the obligation to other parties, not just the vertically integrated ones
2. Perform a tender process to identify parties who would be willing to manage MMO with a consulted charging methodology in place"

We also believe changing the obligated windows to be shorter and more frequent through the day would significantly reduce the costs of the policy whilst increasing liquidity. Our suggestion is four half-hour windows of 9 to 9:30, 11 to 11:30, 14 to 14:30, 16 to 16:30."

I trust you find this response helpful and we would be keen to discuss further if you have any questions. If so please do not hesitate to contact me.

Yours sincerely,

Andy Baugh
Future Regulatory Developments Manager

Npower

Npower Group plc
Trigonos
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

www.npower.com

Registered office:
Npower Group plc
Windmill Hill Business Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

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