

17th September 2018

FAO Ofgem Wholesale Markets and Commercial

**Gazprom Energy response to Ofgem Open Letter on proposal to suspend the Market Making Obligation,
9 August 2018**

When the Market Making Obligation (MMO) was introduced as part of Secure and Promote in 2014 it was to help improve the access to wholesale market liquidity. We acknowledge that the vertically integrated model of the incumbent suppliers is no longer as prevalent as it was in 2014. We do, however, have concerns with the proposal to suspend the MMO. The Electricity Market continues to become an increasingly competitive market and having fair and equitably access to the wholesale market should remain a fundamental requirement.

In the December 2017 follow-up letter to the Secure and Promote review last summer, Ofgem said at the time that they “feel that any significant changes at this point, including the removal of [Secure and Promote], could jeopardise the support on which some participants rely”. Acknowledging that the December 2017 letter also expressed that costs to MMO parties should be reviewed, the Open Letter dated 9 August 2018 takes a very different approach by proposing to suspend the MMO in its entirety and has the potential to have detrimental consequences for affected suppliers.

In the Open Letter dated 9 August Ofgem did not adequately address the implications of suspending the MMO. The Open Letter did not acknowledge the wider benefits that were introduced as a result of the MMO and did not address what alternative arrangements would be implemented to ensure fair and equitably access to the wholesale market is sustained.

Since the introduction of the MMO under Secure and Promote evidence shows that trading, especially on longer-term products, has materially improved. If the MMO is suspended as proposed there is little confidence that these trading levels will be maintained for independent suppliers. There is also concern that independent suppliers will be subject to higher costs when closing their trading positions, at a time when system prices will be sharpened under changes coming in November to the Price Average Reference (PAR) volume.

Since the introduction of Secure and Promote the market has changed and a wide review, such as the one commenced by Ofgem in July last year, would appear pertinent. However, evidence shows that trading barriers still remain, barriers which have been reduced due to the implementation of the MMO. Its suspension would inevitably alter wholesale trading dynamics, including impacting on liquidity and prices, and will probably require a review of hedging strategies, credit, and risk controls, all of which would come at material cost.

A wider review of the wholesale market arrangements would appear timely, however suspending the MMO before a wider review has concluded would appear unwise. We therefore believe that the MMO should not be suspended at this time as proposed in the Open Letter on the 9 August 2018.

If you have any questions arising from this response please contact Alex Mann in the first instance – alexander.mann@gazprom-energy.com.

Kind regards,

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