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Dear Cathryn

Eneco response to Ofgem consultation on the Market Making Obligation (MMO)

Many thanks for inviting the industry to respond to your Open Letter (9th August) concerning the Market Making Obligation (MMO).

Our primary and pressing concern is that you are considering suspending the MMO prior to completing your Secure and Promote review. We understand the changing industry conditions as set out in your letter - exemptions granted to Centrica and E.ON, increasing number of independent players and so on – but there are several reasons why we would strongly suggest that it would be inappropriate and costly for many market participants if you were to suspend the MMO pending completion of your review. We set out our reasons below.

We do not disagree that as the market changes it may be appropriate to examine other market making mechanisms but that this needs to be fully explored and for participants to have time to consider any implications in their business models.

By way of background, Eneco has long-standing experience across many international markets and several commodities. We have been trading in the UK for almost 10 years, we have been an independent developer and generator since 2008 and have been supplying I&C customers for over 5 years.



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Why the MMO is important for independent suppliers and generators

In our day to day trading we are experiencing a concentration of liquidity in the market making windows; outside of those windows it is very limited and more costly. The removal of the MMO would create a significant increase in cost and risk in our hedging activity. Access to these markets is especially important as we enter a phase of increasingly volatile power imbalance prices (noting the implementation of PAR1 as of November this year).

The timing is also important as your suggestion to pre-emptively remove the MMO comes just at the time when some independent suppliers are struggling and their inability to hedge appropriately has been a factor in their demise; the MMO may or may not have played a part, but it is fair to say that, in our opinion at least, without the MMO the likelihood of more market failures would increase due, in part, to increased spreads and reduced churn.

If an MMO suspension were to be introduced before the review is complete, Eneco, like many other players, would have to rapidly review our hedging strategy, credit lines and management of risk. **We would require at least 6 months' notice in order to adjust our internal systems to cope with such a change.** And in addition to all this we would expect a reduction in confidence in trading in the UK market.

We also consider that the merger of SSE and npower – and any implications this may have for the MMO in their case – also needs to be considered after that transaction is complete, not before.

Given the structural changes to the market, the timing for a proposal to suspend the MMO could not be worse. Eneco would be very willing to participate in a debate about future structure for market making but at this moment, we strongly suggest MMO should be retained at least until after the completion of the S&P review and to avoid likely negative impacts on independent suppliers and generators.

Yours sincerely

Nigel McManus

Eneco Energy Trade UK

