

Energy UK response to Ofgem's open letter regarding Secure and Promote

21st September 2018

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HM Treasury.

Response

Energy UK welcomes a review of Secure and Promote (S&P) licence condition, in particular, the Market Making Obligation (MMO). Energy UK considers the liquidity of the wholesale market to be of importance, however we acknowledge there are changes which may be required to achieve this objective. With the changing market conditions, and the recent decision to remove the MMO from Centrica, some of our members agree with Ofgem's analysis indicating that the obligation is unlikely to achieve its stated objectives and will become more onerous for the remaining obligated parties. However, some Energy UK members are concerned that Ofgem has not undertaken an assessment of the costs and benefits prior to proposing to suspend the licence condition in light of the potentially significant cost increases for non-obligated suppliers.

Ofgem has noted that a potential solution to replace the current obligations could be established before Winter 2019. We consider that a suitable, evidence based solution will take a significant amount of time to properly develop and therefore the evidence gathering should start immediately with a review to commence as soon as practical. Should the MMO be removed, Ofgem will need to review the state of market liquidity during the S&P obligation compared to market liquidity prior to the S&P licence obligation implementation.

A review of S&P policy needs to be carried out and an assessment of options needs to be included in a subsequent consultation. While an investigation into the cause of the differences in, and factors affecting liquidity would be interesting, we do not deem it necessary ahead of the implementation of a suitable replacement for the MMO.

Ofgem has previously indicated that a potential replacement to the obligations is for a tendered third party to be a market maker. The costs associated for doing so should then be socialised through the market. We encourage an exploration of this, as well as other options, as part of the Ofgem review.

Should you wish to discuss any area of this response please do not hesitate to contact me. Energy UK considers this to be an important piece of work and our members would value the chance to engage at every opportunity.

Kind regards,

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