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Ørsted's Response to Ofgem's Secure and Promote Update

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Our ref. Ørsted S&P Update Response

We welcome the opportunity to respond to Ofgem's open letter on Secure and Promote (S&P), and the market making obligation (MMO) that sits under S&P.

The Ørsted vision is a world that runs entirely on green energy. Ørsted develops, constructs, owns and operates offshore wind farms, bioenergy plants and innovative waste-to-energy solutions and provides smart energy products to its customers. Headquartered in Denmark, Ørsted employs 5,600 people, including over 900 in the UK. Ørsted is the largest offshore wind farm developer, generator and owner in the UK, and one of the UK's largest independent power generators.

As one of the UK's largest independent power generators, we have a long-standing interest in a well-functioning power market. An efficient market is key for independent generators to buy and sell power at fair market conditions, underpinning their economics and allowing cost effective projects to be developed and built. We were strong supporters of Ofgem's intervention in 2014 which introduced the MMO. This was a timely and needed initiative to establish a well-functioning UK power market. Ofgem's metrics also indicate that liquidity has improved since the 2014 intervention

We agree with Ofgem that the structure of the power market has changed significantly since 2014 and we therefore view that Ofgem is right to review and consider changes to the MMO. However, suspending the MMO while this Review proceeds is unacceptable and must not be used to set a precedent for future Ofgem reviews. The proposed process does not adhere to proper administrative governance and is without analysis of the impact on UK power markets of such market intervention.

Removing a key component in the current market and not introducing other remedies will potentially jeopardise a key pillar of liquidity in the power market. Further, it is being considered during a period of additional uncertainty stemming from Brexit, and other regulatory interventions, such as PAR1 and the retail price cap. The potential damage to the market from a hasty step without any supporting initiatives could significantly reduce liquidity in the market, and once liquidity is drained, additional and more require significant interventions may be required before to support a recovery. We therefore urge Ofgem to retain the MMO pending

the Review's conclusion. It is by nature difficult to calculate the counterfactual cost to the UK power market and consumers of a suspension – and the Review should have sufficient time to make this assessment. We will forward a draft assessment during the next week.

Current Status of the Wholesale Market

S&P and the MMO were developed due to the structure of the UK electricity market, the dominance of the “Big Six” vertically integrated firms and the lack of available electricity products that were required for an efficient, well-functioning wholesale market. Since the MMO has been introduced, there have been improvements in liquidity within the wholesale market, especially in purchasing baseload power for future years.

We also agree with Ofgem that the participants in the wholesale market have changed significantly since S&P was developed and that we will also likely see further changes in the structure of the UK's largest electricity companies. An example is the proposed SSE retail and npower merger and the complex merger and asset transfer between E.On and RWE. In Ofgem persists with removal of the MMO obligation before completion of the Review, we strongly encourage that the removal is conditional upon the final regulatory approvals of the merger.

Reviewing the MMO

We support Ofgem's review of the MMO, and view that the significant changes to the firms that operate within the UK electricity market justify reviewing how the MMO is designed, and the obligations it imposes.

We view that the MMO or a similar voluntary obligation may need to be an evergreen solution. Market making obligations are common in many financial markets, to ensure that right products are available and the trading can occur efficiently. Going forward an initiative to underpin the UK power market could be a tender for market maker's.

Suspending the MMO

We are concerned by Ofgem's view that the MMO should be suspended. We understand Ofgem's concerns that the MMO may be having an impact on the remaining obligated parties. However, the MMO has become a fundamental part of the UK wholesale market and removing it will have impacts on all of the other generators that operate and currently benefit from the wholesale products and volumes that come from MMO, allowing us and the industry to operate efficiently. Pending this review, removing the MMO risks jeopardising the well-functioning wholesale market. If the market is impacted, then the positive changes we've seen in the market may take a significant time to rebuild, and with stronger intervention than otherwise required. We further view that it would be inappropriate to suspend the MMO without quantifying or estimating the potential impact that suspending the

MMO would have on the market or on relevant products. This risk is furthermore accentuated with the uncertainty stemming from Brexit.

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We recognise Ofgem's concern that the burdens and cost of the MMO may be anticompetitive. We view that it would be more appropriate to address this through Ofgem's review, or by seeking alternative remedies which will not be as disproportionate as suspending the MMO. For the avoidance of doubt, Ørsted supports the Secure and Promote Review, however, we do not support the removal of the MMO obligation. In the event that Ofgem persists with removal of the MMO obligation before completion of the Review, we strongly suggest that the removal is conditional upon the final regulatory approvals of the merger

If you have any queries on our response please feel free to contact me (janco@orsted.co.uk, 07795 612847).

Yours sincerely

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