

Cathryn Scott
Director, Wholesale Markets & Commercial
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Email: nicola.percival@innogy.com
Tel : 07557 758 382

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Dear Cathryn Scott,

Ref: Suspension of Secure and Promote Market Making Obligation

Innogy Renewables UK Ltd is a developer and operator of renewable generation projects. We have more than 1,000MW of installed offshore capacity along with a portfolio of onshore wind and hydro. We welcome the opportunity to respond to Ofgem's open letter regarding the proposed suspension of the Secure and Promote Market Making Obligation (MMO) pending a wider review of the policy.

We are supportive of an immediate suspension of the MMO pending a review.

The obligation has become ineffective due to changes in the market. One third of the market-making obligations originally envisaged have been eroded and the planned restructuring of two of the remaining obligated parties will see a further third removed. The obligated volumes are therefore expected to shrink to a third of the original volumes.

The costs of meeting the obligation are disproportionate. The costs of complying with the obligation exceed the projected costs when the obligation was imposed. The default tariff cap will likely see that costs will increase further as Suppliers hedge within the constraints of the cap. This will likely result in falling liquidity and increase costs to the remaining parties meeting the obligation.

The obligation is out of date and distorts competition. Since the obligation was introduced the CMA has stated "we have not identified any areas in which vertical integration is likely to have a detrimental impact on competition for independent suppliers and generators." The impressive growth of independent Suppliers and the resulting fall in the 'big 6' market share means that the obligation now represents a distortion to competition. In the next 12 months it is likely that just two Suppliers will be subject to the MMO rather than the original six.

Any review that Ofgem seek to undertake to assess the effectiveness of Secure and Promote MMO should assume a blank slate, and not begin with the goal of creating a new policy to promote liquidity. The market changes we refer to, which include the growth of independent Suppliers' market share and the introduction of the default tariff cap may mean that no new market making policy is required.

Should Ofgem's review of market making policy conclude that some form of policy is still required we suggest that this should be provided on a commercial basis following a tender process. The costs should be socialised across all retailers to ensure that the policy does not distort competition in the wholesale and retail markets.

Yours sincerely,

Nicola Percival
Policy & Regulations Manager