

19th September 2018

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

Open letter: Secure and Promote Update

Dear Cathryn,

Following the Mandatory Market Making Obligation (MMO) set by OFGEM we have seen a considerable change in trading behaviour in the OTC market by the way of increased liquidity, churn & a narrowing of bid/ask spreads. Whilst still not ideal, the current framework has improved access to the market for small suppliers. We have identified key areas of which should be considered in detail prior to any action being taken:

1) Lack of Analysis and Due Process

The current MMO framework was implemented following the outcome of extensive analysis by OFGEM over a 5-year period, which identified the lack of liquidity pre MMO and associated supplier and consumer detriment. We are concerned that no such analysis nor impact assessment to support the removal of MMO has been shared with relevant stakeholders prior to the proposed suspension of the obligation. We recommend that the analysis conducted to show liquidity and spread evolution pre MMO implementation should be extended to cover the intervening years.

2) Higher costs to consumers due to lower liquidity

We envisage the removal of MMO will have a negative impact on fair price valuation via the widening of bid/ask spreads, lower levels of liquidity & a reduction in churn. These additional costs incurred by the trading teams of independent suppliers will ultimately impact the offers available to consumers. The resultant lack of liquidity will mean small suppliers will be unable to back to back hedge their customer volume which would leave positions exposed to volatile market conditions. This would lead to suppliers adding timing risk premiums to recover additional cost.

3) Consumer benefit to increasing the scope of the current MMO framework

Reiterating our stance propositioned in our letter addressed to you - "Secure & Promote Review – Hudson Energy Supply UK Limited" September 19, 2017. We identified benefits to the consumer by the way of lower commodity prices arising from the passing of cost savings accrued by the removal/expansion of the two liquidity windows, reduction in minimum clip sizes, expansion in product range & increase in the number of MMO market participants.



Yours sincerely,

James Evans

Regulatory Affairs Manager



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