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Open letter on Secure and Promote and the Market Making Obligation
20 September, 2018

Dear Cathryn,

Thank you for the opportunity to respond to the above open letter. This is response is made on behalf of Uniper UK Ltd. Uniper would be supportive of a review of the current market making obligation and believes that, if a market making service is needed going forwards, that it should be restructured to remove market distortions and ensure that the wider market pays for the benefits that it provides.

We believe that the market making obligation can be regarded as a partial success by promoting liquidity in the windows in which it operates. Nevertheless, we agree that changes in market shares and company structures means that it is right to question the basis on which the current obligation is structured. The original obligation was set against a background of a significant amount of vertical integration in the electricity market and a perception that this may be having an impact on the amount of liquidity seen in wholesale trading.

As you know, Uniper as an independent generation licensee is currently subject to the Schedule A Supplier Market Access (SMA) Rules of Special Licence Condition AA. However, it is not subject to the Schedule B Market Making obligations of that licence condition, as it does not hold a supply licence.

The structure of the wholesale market has changed significantly with previous vertically integrated parties demerging or selling off generation capacity. There are now a greater proportion of independent generators and suppliers in the market compared with when the Secure and Promote arrangements were put in place. Therefore, we agree with Ofgem's proposal to review whether, and if so how, a market making service could be provided in future.

Effective market making benefits the whole market, and ultimately customers, by promoting greater liquidity. Therefore, if the conclusion of the review is that that a market making service would still be beneficial, we believe that there is scope to reconsider how this is delivered and by whom. We do not believe that the full burden should be placed on a few market participants alone, given that it is the market as a whole which benefits from the increased liquidity. To do so in effect would simply put in place a cross subsidy between those paying for the provision of the service and those benefiting from but not paying towards it. We believe that it would be fairer and less distortive for the service to be procured through a tender carried out on behalf of the market as a whole.

The costs of providing this service should then be recovered across a wider number of market participants than is currently the case. This wider cost recovery could be achieved through a specific tariff or perhaps through Balancing Services Use of System charges. As this would effectively be a cost recovery charge, rather than providing a specific market signal, it could be recovered in a similar manner to that which Ofgem concludes would be most appropriate for charging residual TNUoS costs under its Targeted Charging Review. This would help prevent the new charge from creating a new market distortion by affecting user behaviour in a different way.

I hope the above comments prove helpful. Please do contact me should you wish to discuss this issue further.

Yours sincerely

Paul Jones
Senior Regulation Manager
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