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Sent by email to: [wholesalemarketoperation@ofgem.gov.uk](mailto:wholesalemarketoperation@ofgem.gov.uk)

**Object: Response to the Open letter: Secure and Promote**

20 September 2018

Dear Cathryn,

Thank you for the opportunity to provide our view on the open letter 'Secure and Promote'.

**Gazprom Marketing & Trading Limited (GM&T)** is an UK registered wholly-owned subsidiary of the Gazprom Group ("Gazprom") active in the marketing and trading of energy commodities worldwide including power, gas, oil, LNG and carbon allowances. We are actively trading in the UK power market and, therefore, we have a significant interest in any regulatory changes that can impact our activities. With this regard, we wish to express our view on the Ofgem open letter 'Secure and Promote' specifically on the potential reform of the Market Making Obligation (MMO).

We are aware of Ofgem's decision to grant the removal of the Special Licence Condition AA from Centrica's Electricity Generation Licence. We understand that this was due to Centrica's structural changes that reduced their generation assets. In the short term, this might also raise some concerns regarding other companies under MMO facing similar structural changes, which isolate their retail business.

In August we organised a call with Heather Stewart (Ofgem's Senior Manager - Energy Systems) to discuss the MMO design. We understood that a potential MMO reform is still at an early development stage with no clear direction of change. During the call we clarified that Ofgem's decision on the next steps will be made in October 2018 and it will be followed by an informal consultation. Ofgem will also decide on whether the MMO should be suspended on all other obliged licenced generators until a decision will be made. We agree that an MMO temporary suspension will be sensible as it could represent a good trial to verify how much 'actual' liquidity there is in the market without any windows constraints.

Looking forward, we also suggest Ofgem to assess how the number of MMO participants might be increased. For instance, some options include:

- Placing new obligations on generators (e.g. new requirements for generators receiving capacity payments)
- Placing new obligations on generators above 'X' MW installed capacity
- Placing the obligations on Interconnectors

However, if Ofgem is confident that enough market participants are now accessing the market, Ofgem might also consider the possibility of removing the condition at all. This option could lead to two scenarios:

- Decrease of liquidity
- Spread of liquidity across the day due to no specific MMO times

In order to provide a more substantial view, Ofgem should clarify whether the MMO has been successful, taking into consideration the initial intent. We have seen that the MMO has allowed visibility of actual traded prices which helped, especially smaller market participants, to have a reliable reference price. On the other hand, it would be useful to evaluate an analysis that shows if there has been a reduction of liquidity outside of the market making windows which might have limited trading opportunities.

All in all, we believe further clarification on next steps are needed. In particular:

- What Ofgem is aiming to achieve?
- Has the MMO been successful, and if so, in which terms?
- What was the initial intent of the MMO? Is this still applicable to the current framework?
- Is Ofgem considering to change the volume threshold? And if so, how?
- What is Ofgem view on the impact of the SEE and Npower merger on market liquidity?
- In terms of design, would Ofgem rather set the MMO as:
  - Baseload and peak
  - Only baseload
  - Expanded to overnight contracts

Finally, considering the potential impact that a decision on MMO will have on the wholesale electricity market in Great Britain, we wish to be kept informed on the development of the reform through email alerts, consultations and invitations to potential events/workgroups.

We hope the comments above prove helpful. Please do not hesitate to contact me on 020 7756 0080 or at [giulia.barranu@gazprom-mt.com](mailto:giulia.barranu@gazprom-mt.com) in the first instance should you have any questions.

Yours sincerely,



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