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Dear Tom,

Secure and Promote - October 2019 Update

Drax Group plc (Drax) is a UK-based energy company with interests in electricity generation and non-domestic supply.

We share Ofgem's concerns that the Market Making Obligation (MMO) Licence condition does not effectively meet its objectives and places disproportionate and unfair costs on the remaining obligated parties. We also believe the proposed suspension of the MMO will enable a better assessment of liquidity levels and whether regulatory intervention is still required. For these reasons, we support the intention to suspend the MMO as soon as practicably possible.

We've seen no evidence to suggest the proposed MMO suspension will have a significant impact on liquidity levels. Indeed, the composition of the GB market has changed dramatically since the introduction of the Secure & Promote (S&P) arrangements. Several of the vertically integrated market participants with large domestic customer portfolios have divested, or plan to divest, their generation or supply businesses and the market shares of the largest domestic suppliers have decreased significantly. In its current composition, the S&P intervention may not have been considered necessary at all.

At the same time, we have seen significant change in the wholesale market, with a move toward more distributed energy resources. We note that distributed energy resources, such as wind, solar, reciprocating engines, demand-side response and batteries, seek to trade mainly short-term energy products (e.g. products traded on the day-ahead and intraday market) rather than the longer-dated products specified in the S&P arrangements. Competition in the GB wholesale market is increasing, with the Herfindahl-Hirschman Index (HHI) falling from 1,267 in 2015 to 1,117 in 2016 and reaching a historic low of 1,034 in 2017¹. Additionally, the share of smaller market actors accessing the wholesale market through specialised platforms (e.g. aggregators/ virtual power plants) is increasing and the use of 'Direct Market Access' facilities, pulling liquidity together, has become more widespread.

¹ International Energy Agency (2019), Energy Policies of IEA Countries: United Kingdom 2019

If there is clear evidence of insufficient levels of liquidity in the GB wholesale power market following MMO suspension, Ofgem retains the option of introducing a new, enduring mechanism designed in a way to meet all the evaluation criteria set out in Ofgem's Open Letter of 30th May 2019. In which case, we would support the development of a voluntary Market-Maker arrangement (i.e. one of willing participation rather than obligation) that is future-proof, cost-effective and that provides for a fair distribution of costs, such as a tendered Market-Making service.

Please feel free to contact me, if you wish to discuss any aspect of this response.

Yours sincerely,

Marcelo Torres

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Drax Group Plc.