

Ofgem
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Ørsted's Response to Ofgem's Secure and Promote Market Making Obligation ("MMO") consultation

6 November 2019

Our ref. Ørsted S&P Update Response

Dear Sir

Thank you for the opportunity to provide input to the above consultation.

We agree that the underlying structure of the electricity market have changed over the years with resulting fewer obligated parties. Following the recently announced sale of RWE's sales business to E.On. we find that maintaining an MMO-obligation on few/one obligated parties is disproportionate.

We remain concerned however that the electricity market is unable to sustain liquidity to the detriment of the functioning of the market and ultimately the consumer bill. Based on data from Trayport, we find that the MMO significantly reduces the overall spreads, increases the liquidity and increases the number of transactions. In addition, the potential price-decoupling of the UK exchanges in the event of a hard Brexit, could drive out short term liquidity. This would also lead to a further dampening effect on the longer-term liquidity.

Given that the above issues were recognised in Ofgem's consultation back in autumn 2018 and that Ofgem assess that the roll-out of a voluntary model could take up to one year, we are concerned about the lack of progress of finding an alternative to the existing obligated MMO, ie a voluntary MMO model. This lack of progress opens the risk for a prolonged period without sufficient liquidity.

There has been unprecedented number of new energy suppliers entered into the retail market in the recent years. Some of these businesses collapsed due to inability to forward hedge their positions in the wholesale market. Removing MMO from existing parties without a transitional plan can worsen the situation for small suppliers and potentially increase consumers bills due to Supplier of Last Resort (SoLR).

We urge Ofgem to move swiftly forward with a proposal for a tendered voluntary market maker model, where one – or more companies – is tendered to provide key products in the short- and longer-term electricity market. In the interim period it

could be considered to compensate exiting obligated parties to provide liquidity in the interim period. Additionally, Ofgem should consider providing a basis for continuing the price coupling between the exchanges. If Ofgem decides to suspend the MMO, then this should be accompanied by a clear timeline for an interim solution and the implementation for a voluntary scheme.

Our ref. Ørsted S&P Update Response

If you have any queries on our response please feel free to contact me (petbi@orsted.dk)

Yours sincerely

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