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Swindon, 06/11/2019

Suspension of Secure and Promote Market Making Obligation

RWE welcomes the opportunity to respond to Ofgem's open letter regarding the proposed suspension of the Secure and Promote Market Making Obligation (MMO). RWE agrees that the MMO is no longer tenable and should be suspended immediately. Specifically:

- **The obligation is ineffective.** RWE's release from the obligation has further eroded the effectiveness of the obligation. The market-making volumes available under the obligation are now one third of those originally envisaged and other recent announcements could see the obligation fall on just one party with a sixth of the original volume.
- **The costs of meeting the obligation are disproportionate.** The costs of complying with the obligation exceed the costs projected when the obligation was imposed. While Ofgem forecast ongoing costs to be around £1.6 million, we currently estimate costs to be between £3.5 and 4 million per obligated party. The default tariff cap and carbon price uncertainty due to Brexit have recently further exacerbated the costs and risks faced by the obligated parties.
- **The basis for the obligation distorts competition significantly.** The obligation now represents a significant distortion to competition against the backdrop of falling integration, the impressive growth of independent suppliers and the resulting fall in the major suppliers' market shares.
- **The obligation has distorted and undermined liquidity.** As we set out in our response to the Ofgem's May update on Wholesale Market Liquidity Policy¹, there is no conclusive evidence that the MMO has improved liquidity in terms of underlying churn and spreads but significant evidence that it has distorted patterns of liquidity and raised further barriers to entry and competition in the wholesale market.

Suspension provides the opportunity for the market to return to a natural pattern of trade and liquidity to underpin fair and effective competition in the wholesale market. Market participants will no longer be able to free ride on the price indications provided by the obligated parties and will need to partic-

¹ "Next Steps on Wholesale Market Liquidity Policy", RWEST, 1 July 2019

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ipate actively in the process of price discovery and liquidity provision. The market should be given sufficient time for natural liquidity to develop further in the wake of the suspension before Ofgem considers any further intervention.

RWE looks forward to contributing to the future development of wholesale market liquidity and wholesale market policy. If you have any comments or wish to discuss the contents of this response further, then please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink that reads "Paul Dawson". The signature is written in a cursive, flowing style.

Paul Dawson
Head of Regulatory Affairs
RWE Supply & Trading GmbH