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YOUR REF./DATE:

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SECURE AND PROMOTE 2019 UPDATE –STAKEHOLDER VIEWS ON A MINDED TO POSITION TO SUSPEND THE MARKET MAKING OBLIGATION

Dear Mr Corcut,

Statkraft UK is pleased to respond to your request for stakeholder views on Ofgem's minded-to position to suspend the MMO licence condition as soon as practicable after RWE has been released from the MMO.

Statkraft also responded to the Open letter of August 2018 (response dated 18 September 2018). In our response we argued against removing the market maker obligation and put forward the view that a market maker obligation was important. We still retain that view.

We don't see that the validity of the arguments put forward in our response has changed materially since the previous consultation round and hence refer to our previous response. We have repeated some of the key points for our previous response further below.

Looking at how market conditions have developed, there are a growing number of decentralised assets which adds to the requirement for price discovery. There has also been a number of retail supply company failures over the past two years; removing a mechanism that increases market liquidity will further put pressure on the surviving small supply players (i.e. they will struggle even more to back sales in the market) and will thus have to increase prices to consumers to reflect the increased hedging risk.

In addition to development of and operation of wind power plants, Statkraft in the UK is the leading provider of long-term power purchase agreements (PPAs) for renewable electricity generation with a portfolio exceeding 8 TWh of primarily renewable generators. Statkraft is also active in electricity supply targeted at industrial customers and in energy services.

The MMO obligation brings liquidity and price transparency at set times; this is greatly appreciated by our PPA customers and it allows them to fix prices in an efficient manner.

The liquidity provided by this window allows us to handle the risk posed by this portfolio of intermittent generation much more effectively. In addition, we trade during these windows to hedge the risk arising from our retail business.

We obviously understand the argument that it is difficult to maintain the market maker obligation when the number of obliged parties get very small. It is not clear to us however, that all the possible courses of actions put forward by Ofgem in last year's open letter has been investigated fully. This included a review if the MMO-criteria and a review of other potential mechanisms for delivering market making.

We suggested that maintaining the number of participants subject to the MMO would avoid costs / risks being placed on a shrinking number of parties. This can be achieved by introducing a minimum number of MMO parties and/or exploring if the MMO should be applied to generation and supply parties separately (i.e. without considering any net position across group companies). It will also help ensure that the objectives of the licence continue to be met on an enduring basis.

Finally, the initiation of a review to establish whether a party (or parties) should be subject to the MMO could be set by parameters more fully and transparently with published trigger points and criteria. This would provide clarity to the market and reduce uncertainty.

Under the current MMO arrangements, liquidity is concentrated within the trading windows. Any mechanisms that have the potential to meet or exceed the overall objectives of Secure and Promote and deliver for end consumers should be explored. Such exploration must be timely and complete – both benefits and costs must be considered alongside the practicalities of implementing any solution. We would welcome the opportunity to comment further on any options as part of the review process.

One way to encourage liquidity across the day may be to extend the duration of the current windows. This could be on every trading day, selected days of the week or on a seasonal-day of the week basis.

In considering which mechanisms may deliver market making, we believe you must consider the wider regulatory environment. Particularly what attracts players into the market and what has caused some to leave. We believe that regulation plays a key part in these decisions. The market is subject to a number of regulatory requirements (e.g. MiFID, REMIT) and further uncertainty around additional regulation is unhelpful and ultimately increases costs for end consumers.

The MMO includes aspects to help limit costs to obligated licensees under certain circumstances and although you proposed enhancing these, you have decided not to implement any changes.

It is important to weigh any costs against benefits for current arrangements before considering whether changes to current arrangements are justified. Price and volume movement protections exist within the current MMO and amendments to these should be considered, along with alternative mechanisms for cost recovery (e.g. from the wider market rather than just MMO obligated parties).

The MMO provides benefits to the wider market beyond those for parties directly participating in transactions with the obligated parties. Of particular importance is the benefit of price discovery for the whole market across the MMO horizon and product range.

Removing the MMO is likely to reduced liquidity and therefore confidence in price discovery at a time when a fair market reference price of increasing importance to a growing number of parties.

We hope our views will be useful when you consider the further progress on this issue. We would be pleased to discuss further the points that we have raised in this response – please get in touch if this is of interest.

Yours sincerely,
for Statkraft UK Ltd

A handwritten signature in black ink, appearing to read 'David Flood', written in a cursive style.

David Flood
Managing Director, Statkraft UK Limited