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5th November 2019

Dear Wholesale Markets team,

Letter dated 8th October 2019 – minded to decision to suspend S&P Market Maker Obligation (MMO)

VPI Immingham LLP (“VPI”) owns and operates a 1.2GW combined heat and power generator in North Lincolnshire. It is operated as a single-asset and is not part of a wider GB portfolio. VPI remains supportive of principles of Secure & Promote and the MMO and is concerned that Ofgem is being forced into an early decision around its future without thorough assessment. As Ofgem state in its most recent letter, the majority of respondents to its August 2018 update suggested the removal of the MMO would result in a fall in liquidity, a reduction in available products and volume traded, as well as wider spreads. VPI agrees with all these assertions and believe there would also be a disproportionate impact on smaller generators and suppliers. Given the considerable notice period Ofgem has had to evolve Secure & Promote, we are concerned by its view that it “cannot know with any certainty what the impact of a suspension would be”.

In May 2019, Ofgem communicated its intention to complete an options assessment around the longer-term alternatives to the MMO and reiterated three liquidity objectives for the GB electricity market:

1. Ensure the availability of a range of longer-term products to support hedging of risk of exposure to large changes in prices
2. Support robust reference prices that are widely available to market participants
3. Promote an effective near-term market which enables all companies to buy the power they need for their consumers.

In particular, the MMO was designed to help deliver 1 and 2 by:

- Providing regular opportunities to trade for all market participants
- Enabling the development of a series of robust prices along the curve and
- Encouraging competition

VPI strongly support Ofgem’s listed objectives and believe the suspension of the MMO obligation, for an unquantified period of time, is not in the interests of the wider market and will impact the hedging strategies of smaller participants at reference prices in the best interests of consumers. VPI has therefore made the following recommendations for Ofgem’s consideration:

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1. Partially suspend the MMO for a defined period only to increase datasets and allow more thorough assessment

- VPI's recommendation would be to suspend a seasonal product for one quarter before assessing any impact on liquidity.
- Alternatively, the MMO for all products could be suspended for a shorter defined duration (i.e. one month).
- Ofgem can also assess the data available around a reduction in MMOs, including its most recent decision. It could also review the existing fast market rules to reduce the perceived impact on MMOs.

2. Resist suspending the MMO until there is clarification around BREXIT

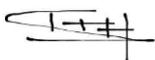
- The UK's delay in leaving the European Union (EU) has resulted in significant hedging challenges for GB market participants, not least around the cost of carbon and future membership of the single market.
- VPI recommend that any full or partial suspension of the MMO takes place at least one month after the UK has formally left the EU. This will allow time for the GB market to adjust without running the risk of reduced trading opportunities, inefficient pricing market and poor outcomes for consumers.

3. Immediately develop a tendering process for an interim 12-month MMO provider

- Ofgem has regularly engaged with the market around the ongoing suitability of the MMO.
- VPI believes that, until an enduring solution can be found, the previous MMOs should be able to competitively tender for the role of market maker. As much as if the IS infrastructure is already in place, this would then create a price signal for others to bid for the service in the future.
- Ofgem should set out a road-map to an enduring solution in the near-term, which could include the rolling 12-month tender for an MMO provider.

If Ofgem requires further information about the above, please do not hesitate to contact me at the below.

Yours sincerely,



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