



Making a positive difference  
for energy consumers

To all stakeholders

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Our Ref:  
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Dear Colleague

Today we have published our letter titled 'Request for modification of Special Condition AA of Electricity Generation Licences held by Centrica Group' and a direction removing the application of Schedule B from Centrica's Generation Licence.

We recognise that this decision raises important questions regarding the design of Schedule B of Special Condition AA of the Generation Licence (the Market Making Obligation, "MMO") going forward. In light of this decision and wider market developments, we are minded to suspend the MMO licence condition until we complete a further review of the provision. We would expect to complete that review during 2019. We set out below further details on our reasoning for considering a suspension of the provision. However, in this letter we are seeking views on this proposal.

### *Background*

Since the introduction of Secure and Promote (S&P) in 2014, we have been monitoring the liquidity of the wholesale electricity market in Great Britain. As part of our commitment to review the policy after 3 years, in July 2017 we published the *Secure and Promote Review: Consultation*<sup>1</sup>. This gathered stakeholder views and provided evidence on the impact of the policy so far. Following this feedback, on 13th December 2017 we published the *Secure and Promote Review: Consultation on changes to the special licence condition*<sup>2</sup>, where we proposed measures to mitigate the costs of compliance with the MMO. At that time, we identified a medium-term need to explore the criteria used to decide which companies should face the MMO.

This was an initial consultation, which included draft licence conditions to give effect to the changes we were minded to make. This consultation concluded on 7<sup>th</sup> February 2018. In light of the developments set out in this letter, we are minded not to proceed with a statutory consultation of the changes we had proposed but to consider these proposals as part of the further review referred to in this letter.

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<sup>1</sup> Secure and Promote Review: Consultation - [https://www.ofgem.gov.uk/system/files/docs/2017/07/liquidity\\_consultation\\_july\\_2017\\_final\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/07/liquidity_consultation_july_2017_final_0.pdf)

<sup>2</sup> Secure and Promote review: Consultation on changes to the special licence condition - [https://www.ofgem.gov.uk/system/files/docs/2017/12/december\\_2017\\_consultation\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/12/december_2017_consultation_final.pdf)

### *Changing market conditions*

Around the same time as the commencement of the December consultation, we received a request from Centrica (dated 11<sup>th</sup> December) to remove the application of Schedule B to them. We had not assessed this request or its implications by the time the consultation was issued.

The recent divestment by Centrica, and our subsequent decision to remove the MMO from their licence, has caused us to reflect upon the fundamentals of the provision and its future application. It may, for example, mean that the changes proposed in December 2017 have been superseded by more important questions regarding the design of the MMO. Moreover, it is possible that the reduced number of parties subject to the MMO may affect the efficacy of the MMO in meeting its original objectives and/or may result in an undue burden being placed on the remaining obligated parties.

In addition, market and business structures have evolved since the policy was initially introduced. While the current criteria used for selecting obligated licensees initially captured the six largest vertically integrated suppliers dominant at the time, two of these companies have now divested much of their generation portfolios. Meanwhile, others are taking steps towards consolidation and amalgamation and there is a growing number of smaller scale suppliers active in the market.

In light of these developments, we intend to review the MMO criteria and other potential mechanisms for delivering market making. We are also considering whether – as a result of the changes and prospective changes in market conditions – the remaining obligated parties will face disproportionate costs<sup>3</sup> and risks in continuing to meet the licence condition, and whether on balance there is a case for suspending the MMO pending completion of our review. This is in particular because the review is only likely to conclude during 2019.

### *Next steps*

We invite interested stakeholders to provide views on these potential courses of action. Any responses to this letter are requested by 20 September 2018 via [wholesalemarketoperation@ofgem.gov.uk](mailto:wholesalemarketoperation@ofgem.gov.uk).

To discuss further, please contact Heather Stewart on [Heather.Stewart@ofgem.gov.uk](mailto:Heather.Stewart@ofgem.gov.uk) or at 0141 354 5436.

Yours sincerely

**Cathryn Scott,  
Director, Wholesale Markets and Commercial**

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<sup>3</sup> Ofgem's Guidance notes at Paragraph 1.10(ii) that disproportionate costs faced by a licensee is a factor we would consider when reviewing the removal of the condition.  
<https://www.ofgem.gov.uk/ofgem-publications/86717/liquidityinthewholesaleelectricitymarketspecialconditionaoftheelectricitygenerationlicence-guidance-pdf>