

GB energy market discussion

Presentation for meeting with the Indian
Delegation



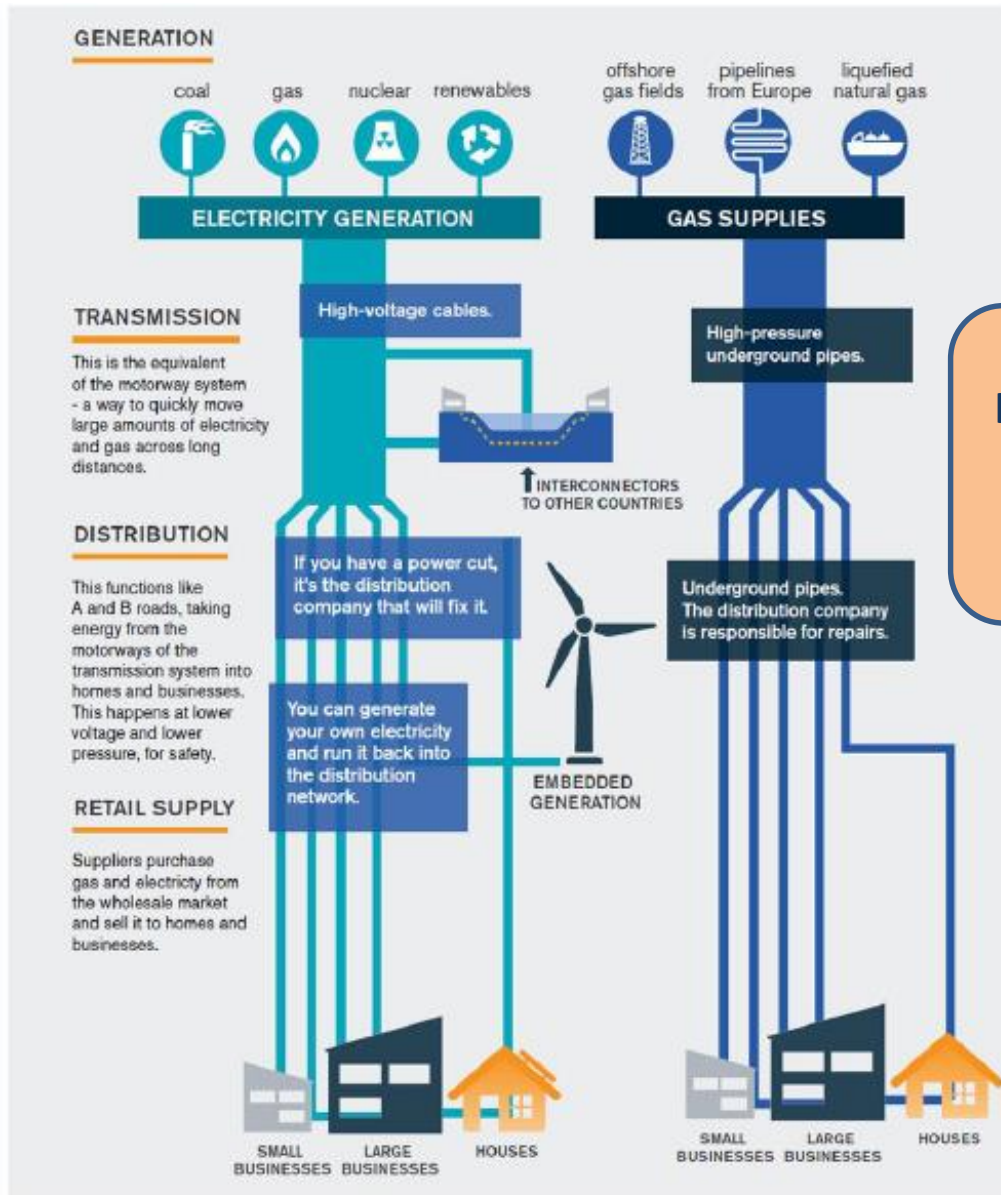
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- Ofgem is the **Office of Gas and Electricity Markets**, an independent national regulatory authority
- Governed by **GEMA** (Gas and Electricity Markets Authority)
- Our core objective is to **protect the interests of existing and future electricity and gas consumers**
 - Promoting value for money
 - Promoting security of supply and sustainability, for present and future generations of consumers, domestic and industrial users
 - Supervision and development of markets and competition
 - Regulation and delivery of government schemes.

Background to the UK electricity market



- 1946** – Central Electricity Generating Board created
- 1990** – Privatisation and the introduction of wholesale competition
- 1990s** – Supply market was opened up to competition
- 2000** – Ofgem was created
- 2008** – Energy Supply Probe
- 2013** – Retail Market Review reforms ‘simpler, clearer, fairer’
- 2014** – Market Investigation Reference
- 2016** – Competition Market Authority findings and remedies
- 2017** – Retail price cap introduced for prepayment meters



How Britain's energy network powers homes and business

Costs

- **Gas** – wholesale costs form the largest part of consumer bills
- **Electricity** – bills are cost-reflective but high electricity prices relative to other European countries

Market Concentration

- **Gas** – low market concentration characterized by high number of producers and diversity
- **Electricity** – moderately concentrated, with eight generators providing three-quarters of metered volumes

Prices

- **Gas** – prices largely determined by global conditions
- **Electricity** – prices driven by the costs of gas, coal and carbon

**Competition in the gas and electricity
wholesale markets is working reasonably
well.**

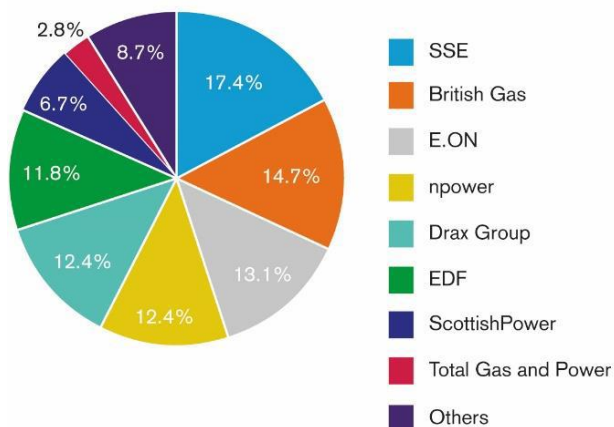
- Domestic (households) retail markets are still concentrated, but concentration is declining due to new entry at a sustained pace. In June 2018, there were **73** active licensed suppliers in the domestic retail market
- Erosion of the six large suppliers' share of the market has continued



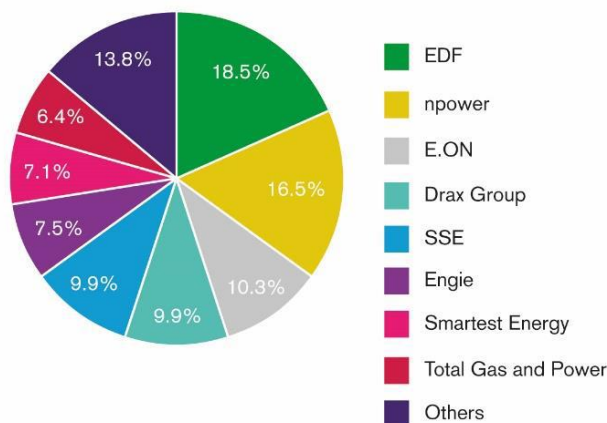
Source: Ofgem (State of the market report 2018), June 2018

- Consumers in the non-domestic sector are diverse, covering a range of different sectors and energy needs.
- As of June 2018, there were **90** active licensed suppliers in non-domestic markets, implying a net entry of 10 compared to June 2017
- Non-domestic markets have seen higher rates of entry and exit, resulting in lower concentration and greater presence of suppliers besides the six large domestic suppliers

Small-scale electricity PC 3 & 4



Large-scale electricity PC 5 to 8 + HH



Competition is working better in non-domestic markets, but small and micro businesses continue to pay much more on average for their energy than larger businesses

Source: Ofgem (State of the market report 2018), June 2018

There are some notable differences between the two markets
(stats from State of the Energy Market Report 2018)

Features	Domestic market	Non-domestic market
Market structure	Dominated by Largest 6 (though rapid growth of independent suppliers in recent years)	Less concentrated, especially for larger consumers
Switching supplier	Annual household switching rates between suppliers was 18% and tariffs 14% in 2018	Between 2017-2018 small and microbusinesses switching suppliers increased from 21%-24%, tariffs fell from 26%-23% - renegotiated contracts increasing to 45% in 2017 from 39% in 2016 ¹
Profits²	Margins 3.5% during 2009-2014	Margins 8% 2009-2014 (For SMEs including microbusinesses)
Prices (BEIS)	Average gas 3.91 p/kWh electricity 12 p/kWh in 2017 ³ – current and soon to be introduced price cap(s) apply	Average gas 2.25 p/kWh and electricity 11.3p/kWh in 2017 across all consumption bands – large variation between business sizes, MB paying on average gas prices nearly twice, and electricity 35%, higher than large businesses, significantly higher for disengaged on default deals
Type of contracts	Customers must select certain set tariffs, no concept of negotiating bespoke deal	Customers negotiate bespoke contracts
Access to market	Switching sites and direct sales from suppliers, emergence of automated switching services	Direct sales from suppliers, TPIs. Low penetration of PCWs
Vulnerability	Special consideration for consumers in vulnerable circumstances including detailed supply licence conditions	Concept of vulnerability not recognised, no protections in place

1 - Tariff switching and renegotiated contracts are only internal.

2 - Average gas and electricity Earnings Before Interests and Profit (EBIT) margins from the Big Six – EBIT measuring a company's profitability on sales over a specific time period.

3- Relating to the consumption bands of medium consumers consuming 2,500 - 4,999 kWh/year electricity and 5,557 - 55,556 kWh/year gas.





Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.