GB energy market discussion
Presentation for meeting with the Indian Delegation
• 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 businesses
**Wholesale Market Features**

### 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 Retail Market Features

- 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
The Non-domestic Retail Market

- 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.

Source: Ofgem (State of the market report 2018), June 2018
Comparison between non-domestic and domestic markets

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

<table>
<thead>
<tr>
<th>Features</th>
<th>Domestic market</th>
<th>Non-domestic market</th>
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</thead>
<tbody>
<tr>
<td><strong>Market structure</strong></td>
<td>Dominated by Largest 6 (though rapid growth of independent suppliers in recent years)</td>
<td>Less concentrated, especially for larger consumers</td>
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<tr>
<td><strong>Switching supplier</strong></td>
<td>Annual household switching rates between suppliers was 18% and tariffs 14% in 2018</td>
<td>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 2016¹</td>
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<td><strong>Profits</strong>²</td>
<td>Margins 3.5% during 2009-2014</td>
<td>Margins 8% 2009-2014 (For SMEs including microbusinesses)</td>
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<td><strong>Prices (BEIS)</strong></td>
<td>Average gas 3.91 p/kWh electricity 12 p/kWh in 2017³ – current and soon to be introduced price cap(s) apply</td>
<td>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</td>
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<tr>
<td><strong>Type of contracts</strong></td>
<td>Customers must select certain set tariffs, no concept of negotiating bespoke deal</td>
<td>Customers negotiate bespoke contracts</td>
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<td><strong>Access to market</strong></td>
<td>Switching sites and direct sales from suppliers, emergence of automated switching services</td>
<td>Direct sales from suppliers, TPIs. Low penetration of PCWs</td>
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<td><strong>Vulnerability</strong></td>
<td>Special consideration for consumers in vulnerable circumstances including detailed supply licence conditions</td>
<td>Concept of vulnerability not recognised, no protections in place</td>
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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.
Ofgem’s work in the Retail Market

- Price Caps
- Switching initiatives to encourage competition
- Consumer Vulnerability Strategy
- Future Market Arrangements; Smart Meters
- Enforcement for non-compliant suppliers
- Principles based regulation – vulnerability principle
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.