

Press release

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OFGEM SETS OUT ROAD MAP TO OPEN UP ELECTRICITY MARKET FOR INDEPENDENT SUPPLIERS

- Ofgem gives Big Six three clear objectives to be met to make the electricity market a more transparent and open market for all suppliers
- Ofgem is proposing mandatory auctions to drive the pace of opening up the wholesale electricity market for independent suppliers
- Moves by large suppliers to sell more of their electricity on the open market, welcome but much more needs to be done

Energy regulator Ofgem has today set out a [detailed road map to open up the wholesale electricity market](#) by setting out three clear objectives which the Big Six suppliers will have to meet. This is to enhance competition and will ensure independent suppliers can buy wholesale power in the range of products they need more easily. The objectives are:

- 1) Availability of a range of products which support hedging
- 2) Robust reference prices showing how much power would cost in forward markets
- 3) Effective short/near term market

As progress has only been made on the third objective since Ofgem set out its intention to reform the market in March, Ofgem is proposing mandatory auctions to drive open the electricity market and ensure all three objectives are met. These would require the Big Six to sell a range of different products so independent suppliers would be able to hedge their positions more effectively on the forward markets and therefore compete on a more level playing field (see notes to editors).

[Ofgem's proposal](#) does not prevent the industry from taking more action to deliver the three objectives.

Senior Partner for Markets Andrew Wright, said: "Since Ofgem announced that the Big Six companies needed to change radically their ways, they have made progress. We have seen pledges to simplify tariffs, moratoriums on door-step sales and now auctioning of power in the short-term market. This is to be welcomed. However, the needs of independent suppliers have not yet been met and this is why Ofgem is proposing to introduce mandatory auctions to force the pace of change and increase transparency."

"Suppliers do not have to wait until the auctions are in place to act. Ofgem has set out clearly the three objectives we want met and energy suppliers now have the chance to take the lead and deliver this increase in liquidity."

More electricity is now being traded in the short/near term market (where power is delivered either on the day or, for example, a day ahead). Between September and December 2011, day-ahead auction volumes increased five-fold¹.

However, in the forward market, Ofgem has yet to see developments. This is why Ofgem’s proposals for a mandatory auction seek to force the pace of change and would ensure the Big Six sell 25 per cent of their power in a variety of different products, much of which will be on the forward markets. This represents nearly half of all household power use in Britain and should allow plenty of liquidity for independent suppliers and potential new entrants to expand their businesses as they currently account for two percent of the domestic market.

Ends

Notes to Editors

1. Ofgem’s reforms

With the Big Six supplying around 99 per cent of the domestic retail market and owning a large proportion of Britain’s power stations, independent suppliers have found it difficult to compete to win customers, and to buy the wholesale power products that they need in the forward markets. This may also deter new firms from entering the market so reducing competition.

Therefore it is important for consumers that the wholesale power market in GB is able to underpin competitive supply and generation markets. To do so, it needs to support reliable trading in key products and generate robust signals. In our view, it should deliver the three objectives set out in the table below.

Objectives for the GB wholesale power market and expected market features

	GB wholesale power market objectives	Example market features
1	<p>Availability of power products which support hedging*</p> <p>*the ability to buy power over different timescales at different prices to balance risk</p>	<ul style="list-style-type: none"> • Range of power products available in the market – including those which allow independents to meet their long-term power needs • Lots of trading in key products • Reasonable and transparent terms of trade

¹ Based on monthly volumes of day-ahead trading

<p>2</p>	<p>Robust reference prices* generated along the curve – a time series of prices for near and longer term products</p> <p>*This means price for a product which has been revealed through enough trading for it to be considered reflective of the product’s real market value.</p>	<ul style="list-style-type: none"> • Lots of trading in key products – including those which allow independents to meet their long-term needs • Narrow gap between prices to buy and sell key products – including longer-dated products
<p>3</p>	<p>Effective near-term market</p>	<ul style="list-style-type: none"> • Lots of trading in near-term products – including those which deliver power the next day • Reasonable and transparent terms of trade • Independents able to get the products they need to meet changes in demand and supply

Ofgem recognises that there have been improvements in the amount of electricity traded in the short/near term market - objective three. However, we continue to be concerned that the market is not providing sufficient access to the range of traded products required by independents and therefore not meeting objective one. This includes products further along the curve, those beyond a month out and potentially up to three years ahead. In particular, longer-dated products are also thinly traded at present, which means the prices generated are difficult to rely on. The market is therefore not currently meeting objective two.

2. Next steps.

The plans for the auction are part of Ofgem’s wider package of retail market reforms which include proposals for simplifying the number and structure of tariffs and tougher standards of conduct on suppliers. Ofgem anticipates publishing a minded to position and if appropriate, our final proposals for reforms to the wholesale electricity market, in Summer 2012.

3. Retail Reforms

For more details on our retail reforms see our factsheet: "[Delivering a simpler and more competitive energy market](#)" available from the Ofgem website www.ofgem.gov.uk

4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority’s powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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