

Energy Action Scotland Response to the Ofgem Wholesale Power Market Liquidity Consultation



Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes.

EAS welcomes the opportunity to respond to this consultation on the Wholesale Power Market Liquidity.

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Fuel Poverty in Scotland

The Scottish Government is required by the Housing (Scotland) Act 2001 to end fuel poverty, as far as is practicable, by 2016 and plans to do this are set out in the Scottish Fuel Poverty Statement. The number of Scottish households living in fuel poverty dropped from 756,000 (35.6%) in 1996 to 293,000 (13.4%) in 2002. Half the reduction was due to increases in household income, 35% to reduced fuel prices, and 15% to improve energy efficiency of housing. The most recent figures from the Scottish House Condition Survey Key Findings Report show that there were 684,000 households living in fuel poverty in Scotland in 2011, representing 28% of total households.

According to figures produced by the Scottish Government in 2008, for every 5% rise in fuel prices an estimated 40,000 more households would go into fuel poverty. Based on these figures EAS estimates that there are currently 900,000 households, more than four in ten, in fuel poverty in Scotland. This significant increase in fuel poverty is widely accepted to be due to the dramatic increases in domestic fuel prices and EAS is very concerned about the impact on vulnerable customers.

Comments on the consultation

Given that the wholesale cost of fuel makes up over 40% of the domestic fuel bill it is important that this significant part of the billing structure is as transparent as possible. It is important that consumers are able to understand this cost and understand if their supplier is giving them the best possible price for the gas and electricity they purchase to then sell to the individual consumer.

It is important that smaller suppliers who wish to enter into the market to provide energy to customers have access to gas and electricity at affordable prices. It would appear that when the market has been more open than it is at present, in terms of trading, the effect has been to drive value into pricing and so keep the overall cost to consumers down. The analysis provided by Ofgem suggests that at times of high market liquidity, as seen over the years 2001 to 2003, the cost of energy to the consumer was at affordable levels. With the drop in trading since that time there seems to have been a steady but constant upward movement in the cost of energy to consumers.

EAS believes that while this might seem counter intuitive, for example, the more a commodity is traded the more costs will be added as brokers and traders make profit from each unit of a commodity traded it would appear that cost to consumers have risen adversely when trading is low.

EAS is further concerned that the recent reporting of traders selling gas from GB at a low cost at the same time as buying liquid gas for use in GB at a much higher cost, seems to demonstrate a misunderstood market and one, which seems to be unregulated to the detriment of the domestic consumer.

To ensure that all domestic consumers have access to energy that is generated, sold and bought at a fair price, EAS would be supportive of Ofgem's alternative approach as laid out in the consultation document.

In particular EAS agrees with the three objectives under the proposed "Option B" that; "The licensee must offer fair and reasonable terms when negotiating trading agreements" this should ensure that all suppliers regardless of size and of customer base are offered fair terms.

That there should be a "Range of intervention options to promote" "a market maker obligation" EAS believes that avoiding any specific intervention may weaken the overall licence condition and as such result in no fundamental change within the market to the disadvantage of consumers. EAS believes that light touch regulation will not drive down prices in this market to any extent whereby consumers see significantly lower bills.

And thirdly the "the Licensee must buy and sell at least 30% of its generation on a day-ahead auction platform". This action would again seem to support the supply of energy to the smaller and newer entrants into the retail market and if this in turn leads to greater choice and reduced bills for consumers this is to be welcomed.

In conclusion

EAS believes that there is a strong need to have a clearer, more transparent wholesale market that provides better value for consumers and drive down bills. EAS believes that the market as it stands is not understood by anyone outside the energy suppliers and as such will continue to be seen as broken by consumers until regulation is introduced to provide a fairer means of selling and buying energy.

Consumers cannot continue to pay for energy at the rates that force the poorest members of our society to choose between heating and eating.

EAS hopes that whatever decision Ofgem comes to in this consultation that it will revisit the enactment of that decision in an appropriate timescale to review the impact on consumer's bills.

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