

## Press Release

12 June 2013

### OPENING UP ELECTRICITY MARKET TO EFFECTIVE COMPETITION

- **Ofgem proposes to establish a more level playing field so independent suppliers can compete effectively with the big six**
- **Big six suppliers\* and largest independent generators must trade fairly with small suppliers or face financial penalties**
- **Wholesale energy prices to be more transparent with big six required to post prices two years in advance**
- **Ofgem's proposed reforms build on progress made by the industry, but seek to increase competition and address issues of fairness and transparency**

Ofgem has today published final proposals that will give independent energy suppliers a more level playing field to compete against their larger rivals. They will also increase competition between the big six who, together with the two largest independent power generators,<sup>\*2</sup> will be required to trade fairly with small suppliers.

Under the proposals, the big six suppliers will have to post the prices at which they buy and sell wholesale electricity on power trading platforms up to two years in advance. They will be obliged to trade at these prices, which means independent suppliers and generators will have far more opportunities to buy and sell the power they need to compete effectively. Posting prices in this way will make wholesale prices clearer for all firms in the market. The new licence conditions will be backed by Ofgem's powers to fine companies if they are in breach.

Andrew Wright, Senior Partner for Markets at Ofgem, said: "Our aim is to improve consumer confidence and choice by putting strong pressure on prices through increased competition in the energy market. Ofgem's proposals will break the stranglehold of the big six in the retail market and create a more level playing field for independent suppliers, who will get a fair deal when they want to buy and sell power up to two years ahead.

"Greater price transparency will assist investors seeking to build new generation plant and help secure supplies for consumers, who are also set to benefit from a simpler, clearer and fairer energy market thanks to our retail market reforms."

Edward Davey, Secretary of State for Energy and Climate Change, said: "I want our energy market to be as competitive as possible. An increased role and level playing field for independent suppliers and generators is precisely what will help drive the competition that delivers better value for consumers and businesses.

"Independent suppliers will have greater access to the power generated by the Big Six and other large power producers, enabling them to purchase and deliver cheaper energy to consumers.

"Ofgem's proposals to increase transparency in the way electricity is traded will give independent generators a foothold in the UK energy market and encourage new players to invest.

"I encourage companies to work with Ofgem to implement these proposals as swiftly as possible. Government stands ready to use the Energy Bill to take necessary measures to improve energy market liquidity should Ofgem's proposals be delayed or frustrated."

Ofgem's pressure on the industry has already produced results with the big six now trading at least 30% of their output in the near-term markets. These proposals will ensure the industry raises its game further by promoting trade in the forward markets.

\* The big six suppliers are: British Gas Centrica, EDF Energy, E.ON, RWE Npower, Scottish Power and SSE

\*2 Drax Power Limited and GDF Suez Energy UK

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## **Notes to editors**

### **1. Supplier Market Access rules – ensuring fair play**

Ofgem's proposals would mean that the big six and the two largest independent power generators cannot refuse any reasonable requests by small suppliers to buy electricity. They must also ensure that they sell power to small suppliers at a fair price and negotiate fairly with them at all times. These large companies will also have deadlines for acknowledging the requests and responding to them.

### **2. Market making obligation**

Industry has responded positively to some of the challenges Ofgem has set for increasing liquidity in the wholesale power market. The big six are each auctioning at least 30% of their power output in the near term market (where power for more immediate use is traded). But there is still not enough trading in power products in the forward market which makes it difficult for independent suppliers to compete with the big six. And a lack of trading in forward wholesale power also means there has been little progress on development of trusted reference prices – the signals that power generators need to see so they can decide when to invest in building new power stations, or carrying out maintenance on existing ones.

This is why Ofgem is proposing to impose a market making obligation on the big six meaning they will have to post prices at which they will buy and sell power for up to two years in advance. This will make it far easier for independent suppliers to buy power for their customers. Knowing that the big six will buy power at the prices they post will also help independent generators sell their output in the forward market.

Clear forward prices combined with more trading in wholesale power will produce trusted reference prices. Trusted reference prices could also help to improve the confidence of customers that wholesale prices are transparent.

3. Ofgem's proposals for reforms to improve liquidity are available here <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Liquidity%20draft%20IA%20120613.pdf>. In the Autumn Ofgem intends to publish the statutory consultation on the licence conditions bringing the reforms into effect. It is expected that the changes will be in place early 2014.

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 functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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