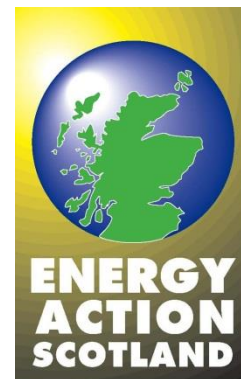


## Energy Action Scotland Response to the Ofgem Wholesale power market liquidity: final proposals for a 'Secure and Promote' licence condition



### 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 the final proposals on the Wholesale Power Market 'Secure and Promote' licence condition.

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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 proposal for a 'Secure and Promote' licence condition.

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 whether their supplier is giving them the best possible price for the gas and electricity they purchase and then sell to individual consumers.

It is disappointing to note that from Ofgem's perspective that Industry has not been able to deliver the improvements in the wholesale market that Ofgem had been expecting. With this failure of the market, it would appear that the only way forward is to introduce some form of regulation. EAS is supportive of legislation where it offers additional protection for the consumer in light of the market being unable to do so to a level considered appropriate by the regulator.

The proposals as set out in the document of Supplier Market Access Rules, a Market Making Obligation and the Reporting requirements initially seem appropriate for the overall outcome Ofgem is trying to create. EAS is supportive of these three proposals believing they have at least some potential to enhance the effect of the Retail Market requirements being brought about by Ofgem.

However, Ofgem states that it is 'difficult to provide a quantitative estimate of the potential impact on consumer bills from greater liquidity. This is due to the inherent difficulty of forecasting the benefits from competition which depend on a wide range of factors'. Ofgem provides instead a qualitative description of the potential impact. Given its remit, EAS has growing concerns that many of Ofgem's policies are anomalous, and are being introduced without these apparent anomalies being a) acknowledged or b) addressed. EAS understands Ofgem's intention to remove barriers to market entry for smaller firms, and appreciates that Ofgem believes that consumers will be offered greater choice if there are more players in the market.

Ofgem further believes that more and newer players entering the market will be key to ensuring a more competitive market and subsequently, lower prices. These beliefs run contrary, in some respects, to recent moves by Ofgem to ensure that consumers have fewer tariffs to choose from (to reduce confusion and encourage switching). Each new entrant to the market will offer four more tariffs – leaving aside their additional offerings – to consumers. However, in general terms a reduction in the number of tariffs that each individual supplier can offer is likely to reduce the price differentials that drive competition and in addition to this make the market less attractive to new entrants, there is a very real danger that consumers will benefit less.

### **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 continues to believe 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.

As stated in our January 2013 response to the original consultation, EAS hopes that whatever decision Ofgem comes to that it will revisit the enactment of any regulation at an appropriate timescale to review the impact on consumers' bills.