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RE: Consultation on market Investigation reference

Thank you for the opportunity to respond to the proposal to make a market investigation reference in respect of the supply and acquisition of energy in Great Britain. DONG Energy is active on both the generation and supply side of the energy market. We are the market leading developer and operator of offshore wind farms, and our UK sales business supplies an increasing volume of the non-domestic gas market. We have also recently entered the non-domestic electricity market.

23 May 2014

Our ref. 140523 CMA response

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We support the proposed referral to the Competitions and Market Authority (CMA). It is of the utmost importance for the UK to have a healthy and competitive energy market, in order to benefit consumers and ensure that smaller suppliers and generators can compete with the large companies. A strong and competitive market is crucial to ensure that the UK can tackle the three main challenges of security of supply, decarbonisation, and affordability. A CMA investigation should involve an objective and expert assessment of the state of the electricity and gas markets, and will facilitate a better understanding and evidence base for the debate, ultimately leading to increased confidence for consumers and investors.

In addition to the issues around competition in the domestic supply market identified in the State of the Market Report, we think the investigation needs to focus on wholesale market transparency and barriers to entry for small suppliers.

Market transparency

Market transparency is fundamental to a well-functioning market. Today, we have several concerns over how the lack of transparency is affecting both the generation and supply side of the market. As we have highlighted numerous times (including in our response to the OFT's call for evidence), trading in the market with a portfolio of wind power generation is difficult given a very thin forward market with hardly any reliable quoted prices beyond a year ahead and insufficient intra-day liquidity which is required to balance intermittent generation closer to real time. On the supply side, the lack of liquidity restricts our options to implement more flexible products and longer term contracts for customers who want more price certainty.

Low liquidity results in a lack of price discovery in the market, which in turn prevents a trustworthy reference price from developing. Access to pricing

information is limited and many must rely on data from price reporting agencies, which are very expensive for small players. Pricing transparency throughout the value chain (including OTC trades and trades through agents) would be a significant improvement for smaller parties and would enable more effective competition.

Our experience as a Danish utility active in the Nord Pool market is that extensive exchange-based trading provides both sufficient liquidity and robust and transparent price information.

Cost of market entry

An important barrier to entry in the UK energy markets is the size of the cumulative credit and collateral requirements for parties, and particularly smaller participants. Credit is required both to cover e.g. mark-to-market risk when trading with larger parties, and to satisfy requirements from Elexon, National Grid, Distribution Companies and the new functions set up by the Government as a result of the implementation of Electricity Market Reform. Another issue for new entrants, and smaller parties wishing to expand, is the cost of having to have multiple contracts with all OTC trading partners. Moving away from OTC trading to exchange-based trading would require parties to only have one contract with the exchange, which would make it significantly cheaper and easier to enter the market.

Yours sincerely



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