



Energy for
generations

ESB

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State of the market

Ofgem

9 Millbank

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Response to: Consultation on a proposal to make a market investigation reference in respect of the supply and acquisition of energy in Great Britain.

ESB welcomes the opportunity to respond to Ofgem's consultation on its proposal to refer the GB energy market to the Competition and Markets Authority (CMA). We strongly support Ofgem's view that there are grounds to refer the GB markets for the acquisition and supply of electricity and gas to the CMA for a market investigation. However, we would urge Ofgem to broaden the focus of the referral to specifically include failings in the wholesale markets for energy that affect independent generators, rather than maintain the current focus on the supply markets.

ESB

ESB is one of the leading independent generators in GB, developing, owning and operating extensive conventional and renewable generation assets in the wholesale energy markets. We have owned and operated conventional gas-fired generation in the GB market for over 20 years and are currently constructing the 880MW Carrington CCGT near Manchester, which is intended to be operational in 2015. In addition, our 1500MW CCGT development project in Knottingley, West Yorkshire, is currently being considered by the Planning Inspectorate. We have 125MW of operational wind plant in GB including the 66MW Fullabrook Wind Farm in Devon.

ESB Views

As an independent player in the GB energy markets, ESB has long recognised the worsening symptoms of an inefficiently operating market that were identified by the regulatory authorities in the State of the Market Assessment (SMA). ESB therefore welcomes Ofgem's proposal to refer the markets to the CMA. As currently designed, the markets for energy are in need of fundamental review and reform to ensure the sector is able to meet the challenges of the future in a manner that is in the interests of consumers.

However, whilst the SMA and Ofgem's consultation focus primarily on the symptoms in the retail and supply markets, we are firmly of the view that similar issues are at least as prevalent for independent generators in the wholesale markets, to the detriment of



competition and, ultimately, consumers. We therefore agree with Ofgem's assertion that there is sufficient evidence for the referral to specifically include a detailed assessment of the operation of the wholesale markets to better understand and remedy the causes of the current market failures that are affecting independent generators, as well as suppliers.

ESB is of the view that many of the symptoms identified in the SMA are, to varying degrees, a result of the vertically integrated nature of the largest industry players. The natural advantages that vertical integration provides to these companies merely compound the many barriers to market entry and participation that exist for independent generators and suppliers. The many symptoms of a failing market that are identified in the SMA can be directly linked to vertical integration.

There is currently a lack of transparency and therefore robustness to wholesale prices, particularly in the forward markets for electricity. Ofgem has identified, through RMR and its liquidity assessments, that the current lack of liquidity is compounding the issue. We note Ofgem's recent measures to improve liquidity but do not believe they address some of the root causes of it. We hope a market investigation will identify the causes of the inherent lack of meaningful wholesale market liquidity and provide robust structural remedies to them.

In making its referral, we would seek for Ofgem to stress the importance of investor confidence to the CMA. The industry is required to invest up to £110bn up to 2020 to meet the ensure the country's energy infrastructure is able to meet future challenges. The market is currently experiencing a period of great structural and regulatory change which has negative effects on investor certainty and confidence. This is particularly pertinent for investors in independent generation assets, such as ESB, as a significant proportion of the investment required in new, cleaner generation capacity will come from the independent sector as pressures currently being seen on the large incumbent players' balance sheets mean that they are less likely to be able to deliver the scale of the required investments in GB.

Whilst a market investigation is required and timely, it will undoubtedly further compound the uncertainty currently being experienced by investors. As such, we would urge Ofgem to stress the advantages of the CMA providing early sight of its findings and the range of remedies available to address any failings it may find, to give investors foresight of the market structure in which new energy infrastructure will operate.

In conclusion, ESB strongly agrees that there are grounds for Ofgem to refer the markets for the supply and acquisition of energy to the CMA. We would, however, urge Ofgem to ensure the focus of the investigation is sufficiently wide as to include the failings in wholesale markets for electricity and gas that affect independent generators, rather than maintain the current focus on the supply markets.



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We look forward to working with Ofgem and the CMA during the course of the investigation. In the meantime, should you wish to discuss any of the views contained herein, please do not hesitate to contact me.

Yours sincerely,

Michael Dodd
GB Regulation Manager, ESB

By e-mail