



**Consultation on a Proposal to make a Market Investigation Reference (MIR) in
Respect of the Supply and Acquisition of Energy in Great Britain**

STATE OF THE MARKET

THE CASE FOR MUNICIPAL UTILITIES

No-Frills Power Generation for the People

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April 2014

Executive Summary

KTI Energy Limited is in absolute agreement with Ofgem to make a Market Investigation Reference (MIR) to the Competition and Markets Authority (CMA) to clarify confusion generally held by politicians, energy companies, regulators and the public on what are fair and reasonable energy prices charged to consumers.

When the Central Electricity and Generation Board (CEGB) was broken up under the Electricity Act 1989, it was generally assumed by politicians that improved price competition would be had by separating the following infrastructures:

- i) electricity generation companies;
- ii) electricity supply companies;
- iii) wire companies (e.g National Grid, UK Power Networks).

Twenty five years later, it would appear no person in authority is able to explain why, when the wholesale price of electricity is £50 per MWh, domestic consumers are being asked to pay nearer £150 per MWh for that electricity to be delivered to their front door.

The aim of this submission is to encourage CMA to investigate middlemen, rather than electricity generation companies, who receive £100 per MWh difference from each domestic consumer; whether those middlemen are properly regulated by Ofgem; whether alternative power generation and supply may be promoted which by-passes middlemen to deliver electricity to consumers at a price less than the present market.

Unfair Criticism of Electricity Generation Companies

The Big 4 (National Power, PowerGen, Scottish & Southern, Scottish Power) evolved 25 years ago as wholly owned British electricity generation companies. The Big 6 (E.ON, RWE, EdF, SSE, Centrica, Scottish Power) today are composed of 4 foreign owned (German, French, Spanish) and 2 British owned companies. Unfair criticism by politicians of the Big 6 will not achieve the ultimate objective of the CMA.

A simple example will illustrate why. Any of the Big 6 may approach Alstom of France to construct a (say) 800MWe gas fired power station fired by gas purchased from Statoil of Norway. It would be reasonable to assume the price quoted by Alstom to any of the Big 6 to construct the station will be the same. It would be reasonable to assume that the gas price quoted by Statoil to any of the Big 6 will also be the same. In which case it would be entirely unreasonable for CMA to assume that any of the Big 6, charging the same wholesale price for electricity they generate, are unlawfully colluding.

Furthermore, if any of the Big 6 make a special offer to consumers, just as supermarkets do with their customers, it would be as unreasonable to assume that (say) E.ON and SSE are colluding in setting the wholesale market price of electricity from month to month as it would be for CMA to determine Tesco and Sainsbury are unlawfully colluding in setting the market price of New Zealand butter.

Accordingly, it would be significantly wiser if the CMA focussed mainly upon investigating middlemen who treble the price of electricity paid by consumers. Middlemen which should be investigated are National Grid possibly over-charging the Big 6 to distribute high voltage electricity to electricity suppliers; UK Power Networks et al possibly over-charging electricity suppliers to deliver low voltage electricity to individual customer's premises; Ofgem possibly hoodwinked to fail in its legal duty to regulate the aforementioned middlemen when believed by the public to over-charge.

Political Posturing

Politicians threatening to freeze the price of electricity engage in political posturing as meaningless as threat to freeze the price of New Zealand butter. Their political campaign would carry significantly more authenticity if instead they gave support to energy generation and supply infrastructures which tend to freeze out middlemen.

Greg Barker MP, Energy Minister at Decc, in September 2013 promised the public a decentralised energy revolution. Key objective would be to allow smaller companies to

compete by generating and supplying electricity and heat to consumers at prices less than any of the vertically integrated Big 6 are able to charge. How this happens overseas is through decentralised energy facilities which may charge higher wholesale price but significantly lower retail price by cutting out middlemen. But for unknown reason, the Energy Secretary has since offered his junior Minister no political or financial support for the planning and execution for decentralised energy schemes. In Germany, 20% grant to a local authority to install its community district heating network.

Municipal Utilities

Virtually every major German town and city operates Stadtwerke (Municipal Utilities) authorised to manage their own energy generation and supply, waste management and water management. Why Secretaries of State at Decc, Defra and Dclg obstruct transfer of techno-economic know-how on affordable energy generation and supply from Germany to Great Britain should be a prime feature of investigation by CMA.

Many Stadtwerke are in Combined Heat & Power (CHP) configuration generating and supplying both electricity and heat to their communities at prices competitive to those charged by German utilities such as E.ON and RWE. In several known cases, Stadtwerke are dual-fired by fossil fuel and SRF/RDF so communities may reap financial benefit from low cost waste management. Why Secretaries of State at Decc, Defra and Dclg obstruct extensive production of SRF/RDF deserves investigation.

KTI Energy Limited (KTI) over the past 2 years has communicated with Secretaries of State at Decc, Defra and Dclg who continue to misinform local authorities on the economic viability of CHP schemes (Municipal Utilities) serving major communities. Without known exception, unless CHP schemes supply electricity at its retail price they are unlikely to be economic. Agreed by Ofgem, unless CHP schemes are licensed, they are not lawfully able to sell electricity at its retail price. Notwithstanding legal advice which KTI has volunteered on numerous occasions to Secretaries of State, they ignore their Parliamentary responsibility for accuracy of account.

Planning Considerations

Whether fired by gas, gas and SRF/RDF dual -fired, or SRF/RDF alone, the fact is that the planning and execution of a licensed and decentralised Municipal Utility (in CHP configuration) serving a major community is unable to proceed outside examination of its host Local Plan by Inspector appointed by the Communities Secretary.

The CMA should take note that on this matter there exists further opportunity for obstruction. Waste officers and members claim that only they under Environmental Protection Act 1990 have authority to plan and execute a Municipal Utility fired by gas and SRF/RDF serving a major community. But the Inspector of the Bedfordshire & Luton Waste Plan in his Report of October 2013 stated such Municipal Utility should not be entered into the Waste Plan leaving local officers and members to lay claim.

The CMA should therefore investigate the Planning Inspectorate for a definitive ruling as to exactly which officers and members are responsible for the planning and execution of a Municipal Utility serving their community with affordable electricity and heat. Should it be waste officers and members who possess no qualification in energy generation and supply? Or should it be local officers and members, equally without qualification in energy generation and supply, shameful when compared with German counterparts?

Summary

This submission from KTI identifies incompetence by Ministers, local authorities and regulators in the planning and execution of licensed and decentralised Municipal Utilities serving major communities (known as Stadtwerke in Germany) which is the singular route forward by which energy prices paid by consumers in Great Britain could be significantly reduced. [For reference, the CMA will take note that licensed means the generation facility must be above 50MWe net electricity output; decentralised means the generation facility must be below 100MWe net electricity output.]
