

Response to Ofgem's consultation on a proposal to make a market investigation reference in respect of the supply and acquisition of energy in Great Britain

Overview

As residents of Great Britain, we are directly affected by the energy market and its evolution, and are pleased that this consultation provides a formal means for us to express our views.

We believe that energy consumers are not as well served as they could or should be by today's market. As such, we support Ofgem's proposal for a market investigation, and trust that referral to the CMA is the most appropriate means to enable a comprehensive and robust review to be conducted.

As currently drafted, however, Ofgem's referral is, in our opinion, too narrowly defined, and risks restricting the CMA's ability to consider the full range of opportunities for increasing the competitiveness of British energy markets into the future.

In particular, we suggest that the CMA must not be limited in the extent to which it can consider the impact of the following issues when devising and assessing possible market interventions to increase competitiveness:

- Influences on consumer choice
- Future scenarios, informed by technological change
- Structural issues across the whole energy system
- Interdependencies with all aspects of the environment
- Interests of all stakeholder groups, current and future.

Influences on Consumer Choice

Current retail and wholesale markets are essentially restricted to price competition, and this is reflected in the detail of the proposed referral. In general, however, consumers may wish to exercise choice on a range of other factors, if available. Examples include qualities of the product (e.g. type of electrical generation, reliability of supply, impact on the natural environment), type of supplier (ethical stance, ownership structure, etc), level of trust, and level of innovation.

Maximising competitiveness therefore includes seeking ways of enabling and encouraging diversification in the factors over which consumers can exercise choice.

Future Scenarios, Informed by Technological Change

There are significant technological developments underway, especially in electricity, which are impacting all aspects of the wider energy system. These encompass developments in the electronic market place for energy, including the

introduction of smart metering and potential for demand side management, but more profoundly a range of disruptive shifts is well underway in the enabling energy system towards genuinely affordable options for localised power generation, improved battery technology for storage, increasingly automated intelligence and control in distribution grids, and the realisation of new concepts such as smart buildings, virtual power plants and grid-connected microgrids.

It seems to us that these technological developments both within the retail and wholesale markets, but more significantly in the wider system, have the potential to have a profound effect on the ways in which market structures could evolve over the long term, leading to the potential for a proliferation of intense competition if policy and regulatory frameworks are forward-thinking enough to facilitate this.

Structural Issues Across the Whole Energy System

Focusing on electrical energy, the whole system can be characterised by five inter-related core functions: consumption, generation, transportation (transmission and distribution), storage and cleaning up. Retail and wholesale markets then facilitate value exchange through this system.

The relationships between these core functions can be considered at multiple levels: for example, national, regional, local area, or individual building. Structural considerations informed by a nested model such as this can lead to questions about how to enable, for example, the emergence of differentiated regional or local energy markets (which would be more strongly associated with the supporting infrastructure than is currently the case), supported by technological change. Such structural considerations, if allowed within the scope of the investigation, could in our opinion allow competitive scenarios to be envisaged that would otherwise remain invisible.

In light of the points made so far in this response, we are of the opinion that the scope of the referral to the CMA needs to include consideration of the whole interconnected energy system in order to determine the extent to which future consumers could have the opportunity to exercise a wider range of choices within diverse competitive markets.

Interdependencies with All Aspects of the Environment

The whole system discussed above needs to manage its interdependencies with its whole environment, both “inwards” (for access to investment, raw materials, weather, skills, new technological opportunities, etc) and “outwards” (to manage its impact back on the environment, including for example economic outcomes, societal stability, ecological and climate impacts, etc).

Without starting from a consideration of the whole system, it will be very difficult, if not impossible, to assess the essential interdependencies with the whole environment, which should ideally take into account economic, societal, technological, ecological, ethical and material domains.

Interests of all Stakeholder Groups, Current and Future

As the energy system evolves, existing stakeholders will take on new roles, as is the case for consumers who start to generate their own electricity either individually or collectively, and new stakeholder groups can emerge in the form of new classes of market participant, for example.

In assessing the influences on energy market competitiveness, we believe that it will be necessary to consider a full range of stakeholder groups, especially those related to future scenarios. In this context, it should be recognised that the emergence or otherwise of different types of stakeholder is related to the evolving structure of the system. We can imagine, for example, a scenario in which public engagement and investment in local power marketplaces is enabled, perhaps involving a mix of models from private enterprise, social enterprise, cooperative, voluntary or public sector, which would expand consumer choice and could put significant competitive pressure on existing retail market players.

Conclusion

In conclusion, we believe that in the interests of setting the energy industry on course for a genuinely competitive future, serving the needs of all consumers in a more effective way than at present, Ofgem's referral needs to ensure that the following factors can all be fully considered:

- All influences on consumer choice, not just price
- Structural issues across the whole of the energy system as it evolves, not just retail and wholesale markets in their current form
- Future scenarios, informed by a full range of technological developments including, for example, increasing electrification, changes in the electrical energy mix to more distributed and volatile renewable generation, smart grid and microgrid developments, and advances in electrical storage
- Interdependencies with all aspects of the environment of the system
- The interests of a full range of stakeholders, including a recognition of the increasing opportunities for traditional consumers to become active participants in energy markets.

Roger Duck and Jane Searles, May 2014

For more discussion on this topic, please see www.janesearles.co.uk