

# GB Retail Markets and the origins of the energy market investigation reference

Mercato Retail Britannico e Origini dell'Energy Market Investigation

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# GB retail markets - liberalisation

- Liberalisation process started in Great Britain at the end of the 1980's
- Several waves of regulatory changes
  - EU and Domestic legislation
  - Ofgem's regulation through licence conditions
  - Industry codes
- Full liberalisation of retail energy markets in 2002
- Trilemma objectives

# GB retail markets – brief overview

- Six large vertically integrated energy firms – the Big 6 / incumbents
  - British Gas (former monopoly supplier of gas)
  - E.On, EDF, RWE, Scottish Power (Iberdola) and SSE (former regional monopoly suppliers of electricity)
- Independent suppliers
  - Four ‘mid-tiers’
  - Two dozen smaller suppliers (including some specialists)
- Department of Energy and Climate Change (DECC) and Ofgem
- 28 million domestic electricity customers and 23 million in gas
  - Mainly dual fuel
  - 16% are prepayment customers
- Roll out of smart meters to be completed by the end of 2020

# GB retail markets – key concerns

- Prices have kept increasing since privatisation
  - Between 2004 and 2014, prices rose in real terms by around 75% for electricity and 125% for gas
  - “Rockets and feathers” effects?
  - Wide price differentials between tariffs and between regions
  - Additional concerns in relation to vulnerable customers
- Poor customer service
  - Door-step selling leading to abuses and inefficient switching
  - Inaccurate billing
- Ofgem’s energy probe and retail market review 2008-2013
  - Limitation on the number of tariff any supplier can offer (and other similar restrictions) so as to simplify customers’ choices
  - Restrictions on door-step selling

# Market investigation reference

- Ofgem's intervention did not remove key concerns
- In November 2013 Ofgem and CMA agreed to produce an assessment of competition in the retail energy market
- In June 2014 Ofgem made a reference to the CMA to look at the energy market in Great Britain.
  - Gas and Electricity – wholesale and retail
  - Domestic consumers and micro-businesses
- Context: considerable challenges, including political uncertainty and a notable lack of trust between policy makers, energy companies and customers
  - No clear and trusted explanation for prices increase, price differentials, rockets and feathers
  - Calls for breaking up the Big 6 (allegation that profits are hidden somewhere in the vertical chain)
  - Calls for direct price regulation
    - Labour's pledge pre-2015 general elections to 'freeze' prices for 2 years

# Market investigation reference

- Principal features of the energy markets identified by Ofgem as potentially having a harmful effect on competition
  - Weak customer response
  - Incumbency advantages
  - Possible tacit coordination
  - Vertical integration
  - Barriers to entry and expansion
- Energy market investigation was an opportunity to
  - highlight areas that have been the subject of public concern or political controversy but where we have not found problems
  - reduce instability by helping to build a robust regulatory regime for the future

# Market investigation reference

- A market investigation is a process that enables a holistic examination of markets; flexible and forward-looking tool – a “temporary regulator”
- Market investigation involves two broad stages:
  - Assessing whether there is a competition problem (“an adverse effect on competition” / AEC)
  - Remediating those problems through either
    - Order making power (ie secondary legislation)
    - Recommendations to any other person (typically government or public body)

# Market investigation reference

- There are several means by which MIRs can create benefits for customers:
  - Direct introduction of measures that address detriments
    - Market opening measures – eg lowering barriers to entry; divestments
    - Strengthening consumer response – enabling consumers to be effective drivers of competition
    - Controlling outcome – eg regulating prices
  - Affecting or influencing other regulations / regulators

# Market investigation reference



- Decision makers: group of five independent members
  - Supported by staff team of about 30 professionals
- Since market investigation reference we have:
  - received hundreds of submissions
  - held over 40 formal hearings and many more staff level meetings with energy firms, Government, Ofgem, consumer bodies and academics
  - Site visits to power plants and customer service offices in England, Scotland and Wales
  - commissioned and completed two surveys of domestic customers