

Competition and Markets Authority Energy Market Investigation - Liquidity

This short submission is made by Energy Action Scotland in response to the CMA's consultative working paper of 13 March 2015 as part of its investigation into energy market liquidity.

Introduction

Energy Action Scotland (EAS) is the Scottish charity with the remit of ending fuel poverty. EAS has been working with this remit since its inception in 1983 and has campaigned on the issue of fuel poverty and delivered many practical and research projects to tackle the problems of cold, damp homes. EAS works with both the Scottish and the UK Governments on energy efficiency programme design and implementation.

EAS welcomes the opportunity to respond to the CMA Energy Market Investigation into liquidity.

EAS response

For the lay person, this is a market that is extremely difficult to understand and to see as transparent. The main question EAS would pose is: who does the market work for? What benefit does it bring to the consumer? And in answer to both, EAS believes there is cause for concern.

This CMA working paper states that there are "some suggestions" "that the wholesale energy markets lack transparency". The paper also states that it "should be noted, however, that the identities of parties and thus the costs of energy trades actually paid by individual parties do remain confidential". While it further notes that "VI firms engage in internal trading, and these prices are not reported to the market. It is difficult to measure the extent of internal trading: some of it takes the form of arm's-length trades comparable to external trades, but some VI firms also trade generation capacity rather than volume, or transfer between 'books'".

With the wholesale cost of energy, both for gas and electricity, making up the single largest proportion of all consumers' bills (just under 50% of the total cost of each bill) it seems that the market does not work for consumers but instead works solely for the benefit of the energy companies. It is hard to see from other papers published by the CMA, particularly that of the profitability in the retail supply of energy in GB, that suppliers' profits have suffered, halted or declined, while the standard of living of consumers has suffered over the time period used in these papers.

Perhaps the most telling comment within the paper is that "The Six Large Energy Firms generally shared the view that liquidity was sufficient for their purposes"; however, as stated previously, the question really should be whether this has led to a better deal for consumers or has benefitted consumers at all?



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As wholesale prices continue to rise and while there are elements, large or small, of the market that remain less than transparent, EAS can only conclude that the energy companies manage the market according to their own needs and not those of their customers and are happy to do so.

As is the case with the distribution market and associated costs, EAS would wish to have the wholesale market regulated in order to create more transparency and to provide a better deal for consumers while giving a fair return to those operating in the market.