Dear Mr Yeo

Thank you for your letter of 30 July to David Currie, which, as you will be aware, he has passed on to me as Chair of the CMA’s energy market inquiry. In your letter, you express surprise that we said, in our recently published Issues Statement, that we were at this stage not minded to investigate the wholesale gas market.

It may be helpful if I set out in more detail how we are taking into account the relationship between wholesale and retail markets, which I trust will address your concerns. As you point out in your letter, the increase in wholesale gas costs, from around 20p/therm in 2009 to around 70p/therm at the end of 2013, was identified as a key driver of increases in retail prices. Since then the wholesale gas price has fallen back to around 40p/therm, and it was in the context of that fall that Ofgem said, in a letter to large energy suppliers, that “a concern that savings were not being passed on to consumers was one of the reasons why we have proposed a referral of the energy market”. I can assure you that we shall be carefully investigating that concern. We signalled in our Issues Statement (para 56) that “we will consider to what extent (retail) price changes seem to be associated with changes in wholesale costs”. We very much recognise this issue and we will be looking at it in detail.

Ofgem’s analysis also suggested “that the wholesale gas market is generally competitive. Concentration and market shares are low by international standards. The potential negative effects of vertical integration appear to be largely absent”. It also noted that the wholesale gas market in Great Britain is well connected with other markets through import pipelines and LNG import terminals, making it part of a wider international market for gas. This view is supported by the CMA’s joint assessment of the market with the OFT and Ofgem published in March. This found that there was a low level of vertical integration in the gas market compared to the electricity market and there are many other characteristics of the wholesale gas market which make it more liquid. For example the Great Britain wholesale gas market is a hub where around 60-70 per cent of all EU trading takes place and as such has a large number of market participants who are regularly active on a daily basis.
Therefore, we have not identified at this stage the operation of the wholesale gas market itself as the specific focus of a theory of harm. However we very much leave open the possibility that as further evidence emerges in the course of our investigation we shall decide to look more closely at this or other specific areas of the market.

We have of course noted that the Secretary of State for Energy and Climate Change announced yesterday that the government intended to bring in legislation to make rigging of the wholesale gas and electricity markets a criminal offence. While this will have no direct bearing on our inquiry, as it is not part of our remit to investigate illegal activity, it does reinforce the point you make about the importance of the wholesale gas market to consumer gas prices.

Finally, I very much share your sentiment that no stone should be left unturned in this inquiry. While we will focus our resources on areas of the market which the evidence suggests might be particularly problematic from a competition perspective, we remain open and willing to redirect our focus in the light of the evidence as our investigation progresses.

I hope this helps to clarify our position and provides reassurance that we are committed to tackling any competition issues in the energy market that have led to the erosion of public trust which you describe.

Yours sincerely,

Roger Witcomb

Panel Chair

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