



Department for
Business, Energy
& Industrial Strategy

GOVERNMENT RESPONSE TO THE COMPETITION & MARKETS AUTHORITY ENERGY MARKET INVESTIGATION

February 2018

Introduction

The Competition and Markets Authority (CMA) undertook an extensive study of the retail energy market between June 2014 and June 2016. Their conclusion was that the market was not operating as it should, and that in total domestic customers of the Big 6 energy companies were paying an average of £1.4bn a year more than they would in a truly competitive market. In their final report the CMA made a number of recommendations to improve the retail energy market.

The government agrees with the majority of these recommendations and, along with Ofgem, is implementing remedies proposed by the CMA. The Government welcomes the extensive work carried out by the CMA: the summary below explains in more detail the areas of agreement and the action necessary to take this forward.

The government remains committed to the ambitious agenda of cutting carbon emissions while driving economic growth, as set out in the Clean Growth Strategy. We are also rolling out smart meters, taking measures to make switching faster and easier and testing initiatives to improve engagement, particularly among the most vulnerable. As we move towards a smarter and more competitive energy system, new technologies and business models offer significant benefits to consumers – not least by bearing down on the drivers of the cost of energy.

The government agrees with the minority opinion of the CMA that a temporary cap on energy prices would provide protection to consumers while the remedies are implemented, smart meters are rolled out and the conditions for effective competition are established.

The government has introduced the Domestic Gas & Electricity (Tariff Cap) Bill to Parliament with the aim of temporarily capping energy prices for those on standard variable and default tariffs. This will provide protection for millions of households while this wider market reform takes place.

In view of this, we support the CMA recommendations intended to increase consumer engagement. We believe that the implementation of the Midata project will help consumers find the best deal for them on the market, by facilitating the use of their personal data (with their consent) to shop around. The government will publish the response to the call for evidence on Midata later this year. Ofgem are working to implement a reliable next day switching solution as soon as reasonably practicable. We support Ofgem's delivery of testing programmes on prompts and databases. The purpose here is to engage consumers, particularly disengaged consumers, to encourage more people to switch (but without irritating them in the process).

The CMA also suggested that price comparison websites should not be obliged to show all the tariffs on the market. While this approach carries some risk, Ofgem have approached implementation of this remedy with care, including testing how customers react. Ofgem plans to consult in Spring 2018.

The CMA concluded that half-hourly settlement will be key to providing stronger incentives for suppliers to offer smart tariffs, and said that the government and Ofgem should plan that change. The government agrees and has proposed new powers on this as part of the Smart Meters Bill. Smart tariffs enabled by smart metering have the potential to reduce bills and the overall costs of the electricity system, and the government is working closely with Ofgem to deliver the reforms.

The government and Ofgem announced a proposed restructuring of National Grid's system operator functions in January 2017. Ofgem has since confirmed that National Grid should proceed with plans to set up a new legally separate company to carry out its electricity system operation function within National Grid plc, which will be in place by April 2019.

The CMA proposed some technical changes that will increase the locational signals for generation investment in the wholesale market. These should reduce customer bills and are welcome.

The government agrees with the CMA that the governance arrangements for gas and electricity industry codes needs to be reformed to ensure changes happen that are good for customers and competition. We will consider legislation when parliamentary time allows.

The government agrees with the CMA, that clarity about the government's work with Ofgem is desirable. The call for evidence on smart energy and subsequent plan of action was published jointly with Ofgem for example. The right approach, however, may not always be a detailed joint statement, so we will agree this with Ofgem on a case-by-case basis.

The CMA recommended that the government undertake, and disclose the outcome of, an impact assessment before awarding a Contract for Difference (CFD) outside of a competitive auction process, and consult on assessment of how budget should be allocated to different auctions before making those decisions. The government agrees that auctions for CFDs are the best way of ensuring value for money, and prefers to use competitive mechanisms where possible. Similarly the government wishes to get the best possible information on which to base decisions. The government considers that these specific remedies may not always be practical, for example where decisions are based on commercially confidential information. As a result, the government will seek to maximise competition and clarity and robustness of decision making in the best way in the circumstances, and will set out plans for the CFD scheme in due course.

The CMA also recommended two further legislative changes: to revise Ofgem's and the Secretary of State's duties on competition, and to require Ofgem to give opinions on government policy. In the government's view the current objective already places sufficient emphasis on competition while also requiring Ofgem to consider the best way to protect customers. As an independent regulator, Ofgem is already able to comment on government policies and have stated in their CMA remedies implementation plan¹ that they will use their existing powers to publish opinions when appropriate.

¹ Ofgem CMA Remedies Implementation Plan, Nov 2016. www.ofgem.gov.uk/publications-and-updates/cma-remedies-implementation-plan

Description of Remedy	Status	Position
<p>Government to revise the Midata programme to ensure domestic customers can access their data electronically in order to conduct an accurate cross-market comparison.</p>	<p>BEIS published a call for evidence which closed in February 2017. The government response to this call for evidence will be published in Spring 2018.</p>	<p>Support</p>
<p>Tests to improve customer engagement: domestic and microbusiness</p> <p>The CMA has recommended trialling (i) a market cheapest tariff message; (ii) changes to the messaging domestic customers receive on bills once they move to a standard variable tariff; and (iii) changes to the names of default tariffs e.g. emergency tariff.</p>	<p>Ofgem are leading implementation and prioritising trials for domestic customers. Ofgem sought early voluntary action from suppliers in advance of licence conditions being introduced requiring suppliers' participation.</p>	<p>Support</p>
<p>Ofgem to develop and utilise a database with details from suppliers of their domestic and microbusiness customers who have been on a standard variable or default tariff (a tariff that they have not actively chosen) for three or more years to enable rival suppliers to prompt customers to engage.</p>	<p>Ofgem is progressing this following an Order from the CMA in December 2016. Ofgem have written to suppliers notifying them that larger suppliers should be ready to transfer customer data by September 2018 to enable implementation.</p>	<p>Risks of excessive marketing from rival suppliers but support careful Ofgem implementation</p>
<p>Price comparison websites to be granted access to the Electricity Central Online Enquiry Service (ECOES) and the gas Data Enquiry Service (DES) databases on gas and electricity customers to reduce errors in switching process.</p>	<p>CMA Order issued in December 2016 and Order now in force. First compliance statement released in March 2017 and expected annually.</p>	<p>Support</p>
<p>Requirements on suppliers to encourage switching for those on restricted meters and Citizens Advice to provide information and support to customers on restricted meters.</p>	<p>CMA Order issued in December 2016 and is now in force. The first compliance statement was required in September 2017 (and annually thereafter).</p>	<p>Support</p>
<p>Capping the price for all customers on prepayment meters.</p>	<p>CMA Order on suppliers issued in December 2016 to cap the price for all customers on prepayment meters. This cap applies from April 2017 to December 2020. Ofgem to ensure compliance and review the level of the cap every 6 months.</p>	<p>Support</p>

Description of Remedy	Status	Position
Allow suppliers to group prepayment meter tariffs in each region under one tariff code to enable more tariffs to be available.	Complete	
Ofgem to take responsibility for efficient allocation of gas tariff pages (also referred to as 'slots') in order to free up gas tariff codes for use by smaller suppliers and to improve competition in the prepayment market.	Complete	
Changes to Debt Assignment Protocol to enable customers with a higher level of debt to switch suppliers and improved clarity of process.	Complete	
Ofgem to remove the simpler tariff rules from suppliers' licences (the ban on complex tariffs, the 4 tariff cap, restrictions on certain discounts and reward points, those on bundled products and those on tariffs exclusively for new customers). The CMA proposes these licence conditions should be replaced by a standard of conduct licence condition that would require suppliers to design tariffs that are easily comparable.	Complete	
Removing requirement on price comparison sites to provide a whole of market comparison.	Following consultation and careful testing, including of how customers react, Ofgem plans to consult on their final decision on the implementation of this remedy in Spring 2018.	Risks of reducing customer confidence, but support careful Ofgem implementation including testing how customers react
Improve transparency on tariff prices for microbusiness customers.	Complete	
Make it easier for microbusiness customers to end their energy contracts and improve flexibility with auto-rollover contracts.	Complete	

Description of Remedy	Status	Position
<p>Ofgem to ensure implementation of Project Nexus.</p> <p>Submission of gas meter readings.</p> <p>Gas Performance Assurance Framework.</p>	<p>Complete</p>	
<p>Implement half-hourly electricity settlement.</p>	<p>Ofgem published a consultation in 2016 on plans for moving to mandatory market-wide half-hourly settlement including timing considerations, relevant regulatory interventions, and who should design and approve such interventions. They launched a Significant Code Review (SCR) in 2017 to take the work forward and intend to reach a decision on the approach to implementing market-wide half-hourly settlement by the second half of 2019.</p> <p>New powers proposed in the Smart Meters Bill would provide Ofgem with a more efficient way of delivering these reforms.</p>	<p>Support</p>
<p>Variable transmission losses to be priced on the basis of location, from April 2018.</p>	<p>CMA Order was issued on National Grid in December 2016, to progress the necessary changes, so that imbalance charges are calculated on the basis of location from 1 April 2018. In February 2017, final proposals were submitted on schedule to Ofgem which it approved in March for implementation within the CMA's required timescale</p>	<p>Support</p>
<p>Ofgem to: (i) publish annually a state of the market report (the 'State of the Market Report') (ii) create a new unit to publish annually the State of the Market Report; (iii) modify the licence conditions of the Six Large Energy Firms' generation and supply licences by introducing requirements around greater transparency for financial reporting; and (iv) develop a price monitoring regime.</p>	<p>Ofgem launched this new unit and Office of the Chief Economist in 2016.</p> <p>Ofgem published their first report in October 2017 and will publish annually in the future.</p>	<p>Support</p>

Description of Remedy	Status	Position
<p>Government to legislate to change Ofgem’s statutory duties and to set up a process for Ofgem to comment on government policy.</p>	<p>At present Ofgem and the Secretary of State have discretion to decide the best way of protecting customers, including measures which promote competition, where these are appropriate</p> <p>Ofgem are able under their current powers to comment on government policy should they wish. They have stated in their CMA remedies implementation plan that they will do so when appropriate.</p>	<p>Do not agree with the need for legislation as Ofgem are able under their current powers to comment on government policy. Ofgem have stated that they will do so when appropriate.</p>
<p>BEIS and Ofgem to publish detailed joint statements concerning proposed government policy objectives that are likely to necessitate parallel, or consequential, Ofgem interventions.</p>	<p>Already being implemented where appropriate, for example the Smart Meter call for evidence.</p>	<p>Support, but action will be considered case by case</p>
<p>Code governance improvements to enable Ofgem to set strategic direction, modify code manager roles and powers to intervene in modification process as a last resort.</p>	<p>Legislation will be considered when parliamentary time allows.</p>	<p>Agree that code governance arrangements require reform.</p>
<p>For BEIS to (i) undertake, and disclose the outcome of a clear and thorough impact assessment before awarding any Contracts for Difference outside the CFD auction mechanism and (ii) undertake and consult on a clear and thorough assessment of the appropriate allocation of technologies and CFD budgets between pots.</p>	<p>Relevant to future decisions on allocation of CFDs.</p>	<p>Support use of competitive process where possible and robust and clear decision making, but decisions on specific implementation to be taken in the circumstances at the time.</p>



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